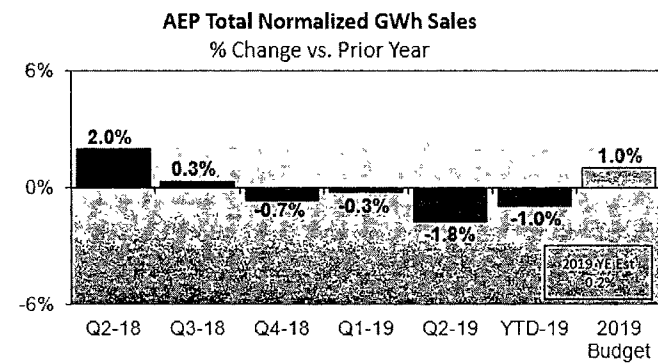
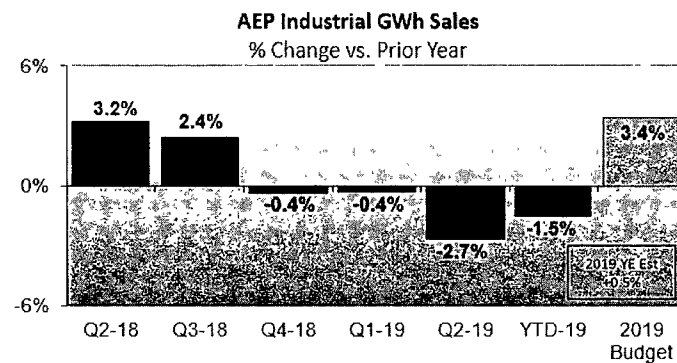
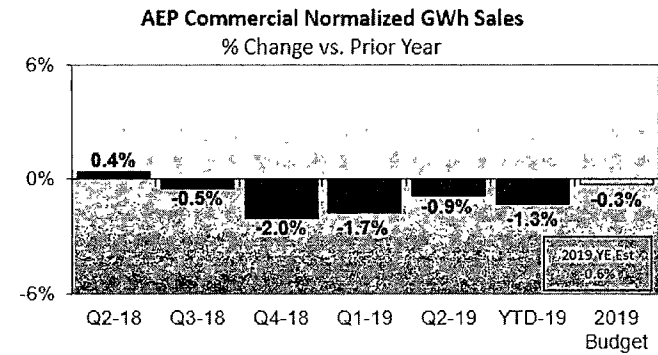
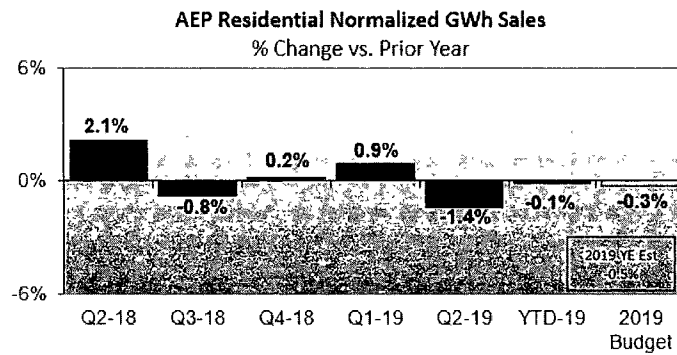


# Normalized Load Trends



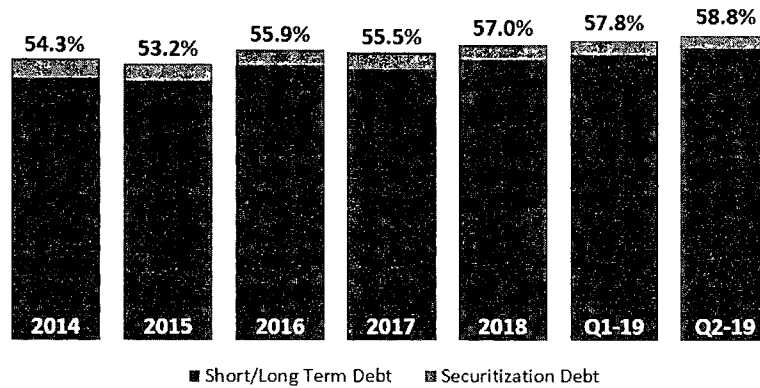
Load figures are provided on a billed basis. Charts reflect connected load and exclude firm wholesale load.

Historical and 2019 data adjusted to reflect reclass of industrial and commercial industry codes for certain customers; no revenue or earnings impact.

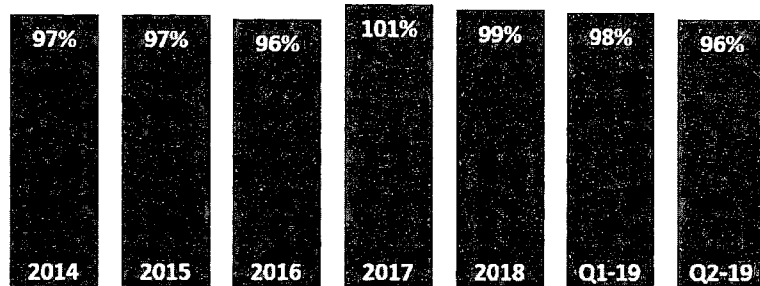
# Capitalization and Liquidity



## Total Debt / Total Capitalization



## Qualified Pension Funding



## Credit Statistics

|                   | Actual | Target    |
|-------------------|--------|-----------|
| FFO to Total Debt | 15.3%  | Mid Teens |

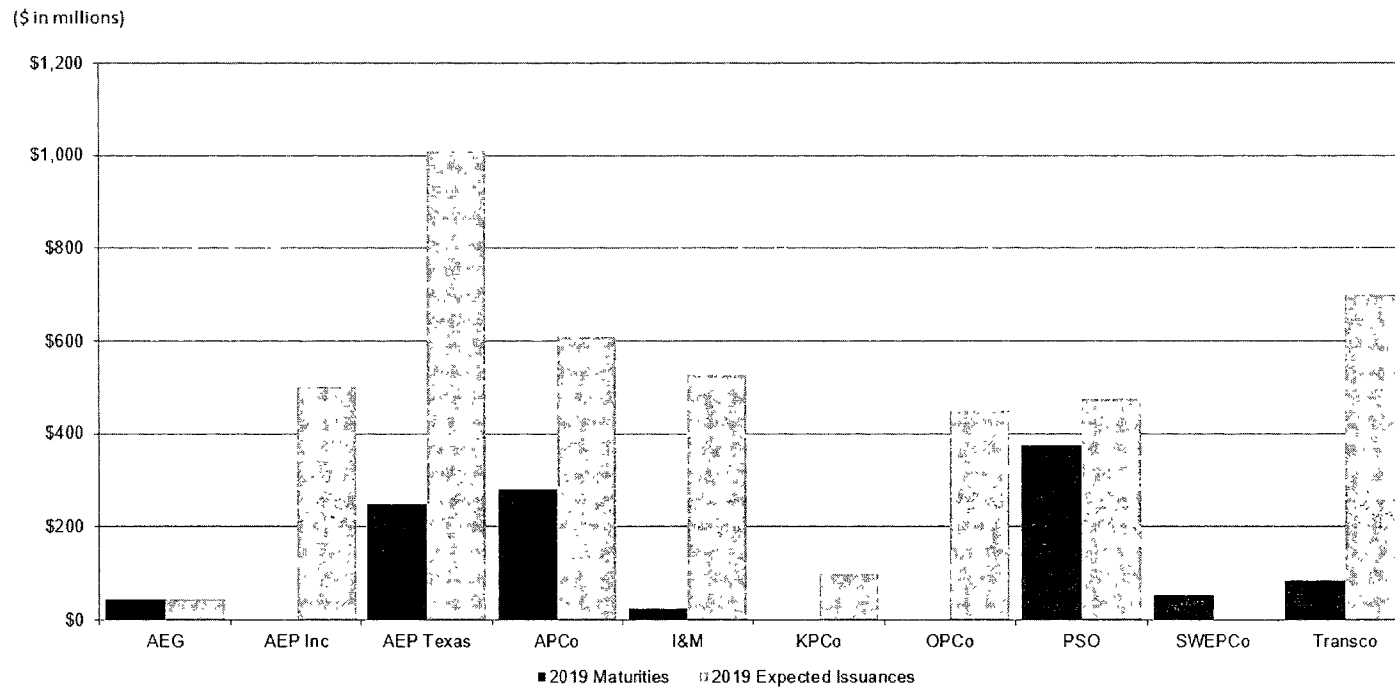
Represents the trailing 12 months as of 6/30/2019

## Liquidity Summary

| (unaudited)                    | 6/30/2019 Actual |          |
|--------------------------------|------------------|----------|
| \$ in millions                 | Amount           | Maturity |
| Revolving Credit Facility      | \$4,000          | Jun-22   |
| <b>Plus</b>                    |                  |          |
| Cash and Cash Equivalents      | 211              |          |
| <b>Less</b>                    |                  |          |
| Commercial Paper Outstanding   | (1,585)          |          |
| Letters of Credit Issued       | -                |          |
| <b>Net Available Liquidity</b> | <b>\$2,626</b>   |          |

Strong balance sheet, credit metrics and liquidity

# 2019 Debt Issuance and Maturities Overview



Financing plans are subject to change depending on capital expenditures, regulatory outcomes, internal cash generation, market conditions and other factors

# Long-Term Debt Maturity Profile



(\$ in millions)

| Year                        | 2019         | 2020           | 2021           | 2022           | 2023         | 2024         |
|-----------------------------|--------------|----------------|----------------|----------------|--------------|--------------|
| AEP, Inc.                   | \$0.0        | \$500.0        | \$400.0        | \$1,105.0      | \$0.0        | \$0.0        |
| AEP Generating Company      | \$45.0       | \$150.0        | \$0.0          | \$0.0          | \$0.0        | \$0.0        |
| AEP Texas*                  | \$0.0        | \$110.6        | \$0.0          | \$625.0        | \$125.0      | \$0.0        |
| AEP Transmission Company    | \$85.0       | \$0.0          | \$50.0         | \$104.0        | \$60.0       | \$95.0       |
| Appalachian Power*          | \$0.0        | \$65.4         | \$367.5        | \$329.4        | \$0.0        | \$86.0       |
| Indiana Michigan Power      | \$26.8       | \$3.9          | \$308.5        | \$66.3         | \$312.7      | \$0.0        |
| Kentucky Power              | \$0.0        | \$65.0         | \$40.0         | \$75.0         | \$0.0        | \$65.0       |
| Ohio Power*                 | \$0.0        | \$0.0          | \$500.0        | \$0.0          | \$0.0        | \$0.0        |
| Public Service of Oklahoma  | \$125.0      | \$12.7         | \$250.0        | \$0.0          | \$0.0        | \$0.0        |
| Southwestern Electric Power | \$0.0        | \$115.0        | \$0.0          | \$275.0        | \$0.0        | \$25.0       |
| Wheeling Power Company      | \$0.0        | \$0.0          | \$0.0          | \$178.0        | \$0.0        | \$0.0        |
| <b>Total</b>                | <b>\$282</b> | <b>\$1,023</b> | <b>\$1,916</b> | <b>\$2,758</b> | <b>\$498</b> | <b>\$271</b> |

\* Excludes securitization bonds

Includes mandatory tenders (put bonds)

Data as of June 30, 2019

# AEP Credit Ratings



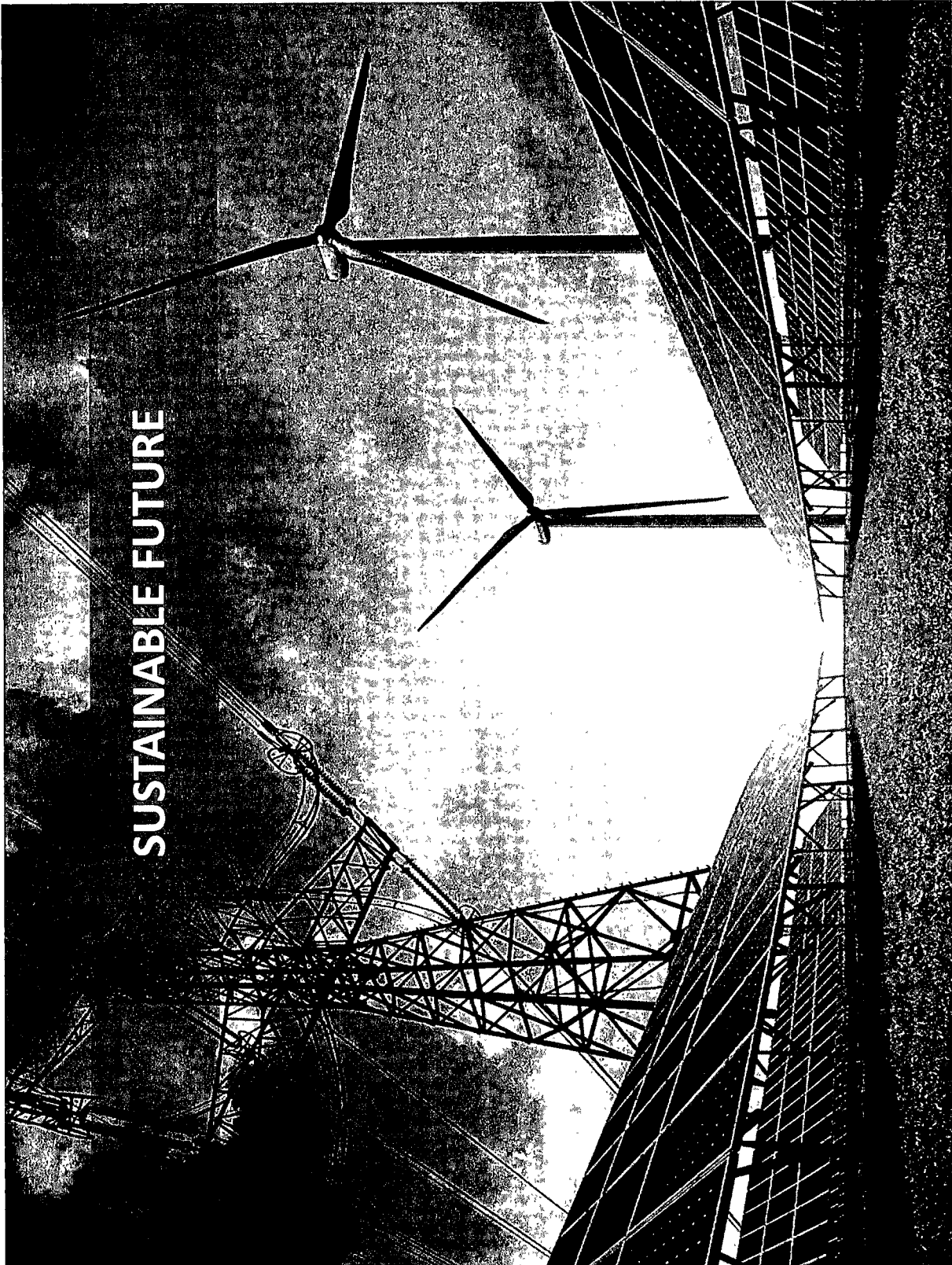
| Company                                     | Moody's          |         | S&P              |         |
|---|------------------|---------|------------------|---------|
|   | Senior Unsecured | Outlook | Senior Unsecured | Outlook |
| American Electric Power Company Inc.        | Baa1             | S       | BBB+             | S       |
| AEP, Inc. Short Term Rating                 | P2               | S       | A2               | S       |
| AEP Texas Inc.                              | Baa1             | S       | A-               | S       |
| AEP Transmission Company, LLC <sup>1</sup>  | A2               | S       | A-               | S       |
| Appalachian Power Company <sup>2</sup>      | Baa1             | S       | A-               | S       |
| Indiana Michigan Power Company <sup>2</sup> | A3               | S       | A-               | S       |
| Kentucky Power Company                      | Baa3             | S       | A-               | S       |
| Ohio Power Company                          | A2               | S       | A-               | S       |
| Public Service Company of Oklahoma          | A3               | S       | A-               | S       |
| Southwestern Electric Power Company         | Baa2             | S       | A-               | S       |
| Transource Energy <sup>3</sup>              | A2               | S       | NR               | NR      |

<sup>1</sup> AEP Transmission Co. received a senior unsecured debt rating of A- from Fitch. The rating outlook is Stable.

<sup>2</sup> In conjunction with the unenhanced VRDN remarketings, APCo and I&M both received short term credit ratings of A-2/P2 from S&P and Moody's, respectively.

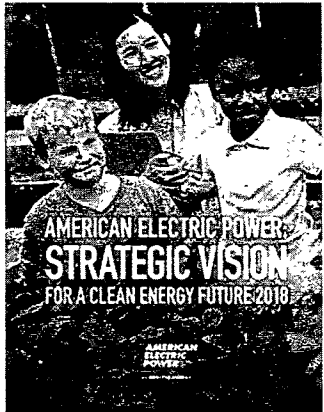
<sup>3</sup> NR stands for Not Rated.

Ratings current as of June 30, 2019



# Emission Reduction Goals





## AEP's CO<sub>2</sub> Emission Reduction Goals

| INTERMEDIATE GOAL  | LONG-TERM GOAL   |
|--|--|
| <b>60% reduction</b><br>from 2000 CO <sub>2</sub><br>emission levels<br>by <b>2030</b> | <b>80% reduction</b><br>from 2000 CO <sub>2</sub><br>emission levels<br>by <b>2050</b> |

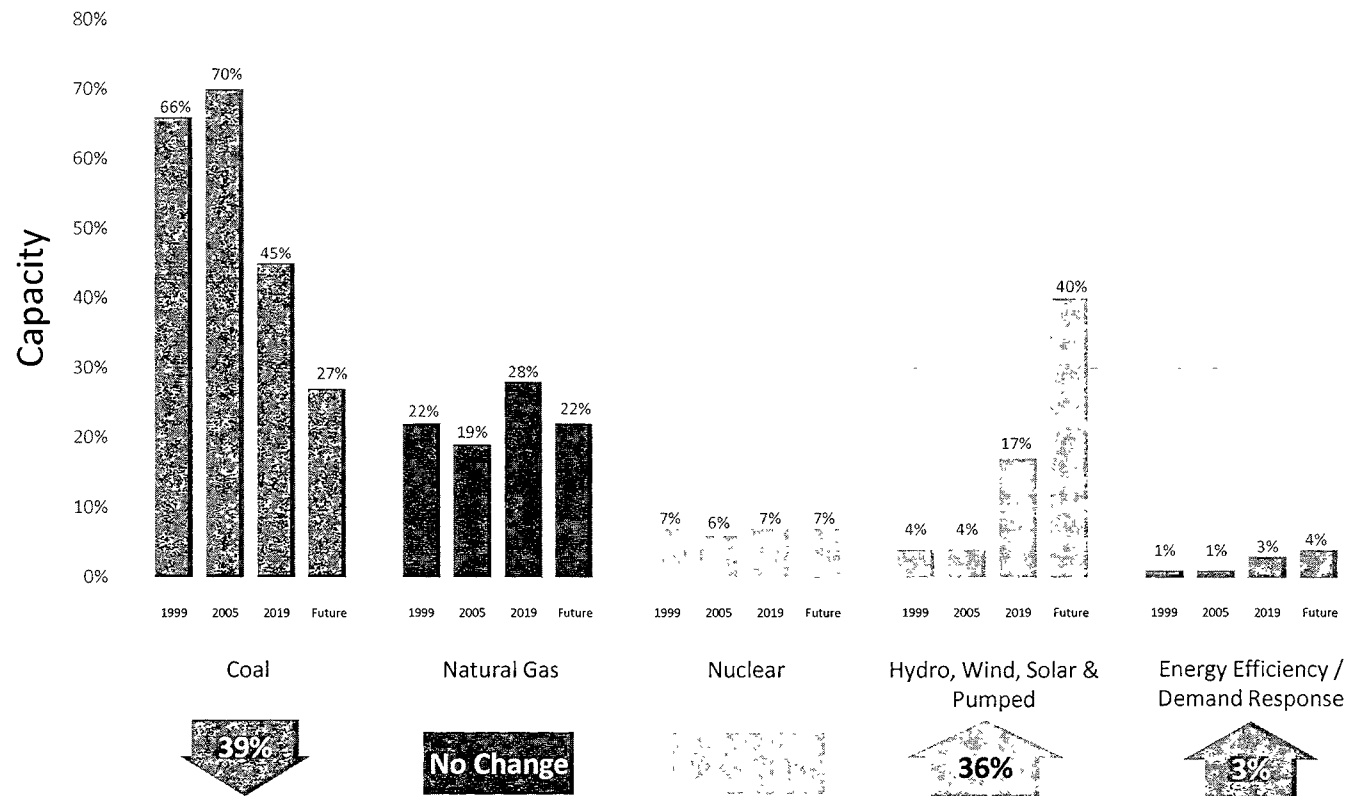
## Strategy to Achieve:

- ☐ Investments in renewable energy within and outside of our traditional service territory
- ☐ Technology deployment (e.g., energy storage)
- ☐ Modernization of the grid with significant investments in transmission & distribution
- ☐ Increased use of natural gas
- ☐ Optimization of our existing generating fleet

## Environmental, Social & Governance (ESG) Reporting:

- AEP's Corporate Accountability Report
- Clean Energy Strategy: American Electric Power: Strategic Vision for a Clean Energy Future
- EEI ESG Sustainability Reporting: AEP's 2019 EEI ESG Report
- AEP's GDP Survey Responses
- AEP's GRI Report
- AEP also responds to investor-related surveys, including MSCI and Sustainalytics

# Transforming Our Generation Fleet



As of 08/01/2019. Future includes IRP forecasted additions and retirements through 2030. Energy Efficiency / Demand Response represents avoided capacity rather than physical assets.



# Delivering Clean Energy Resources

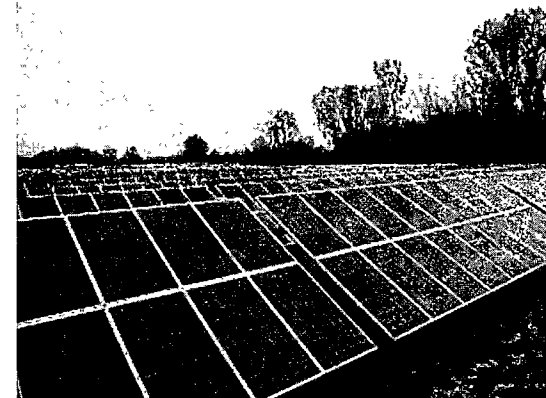
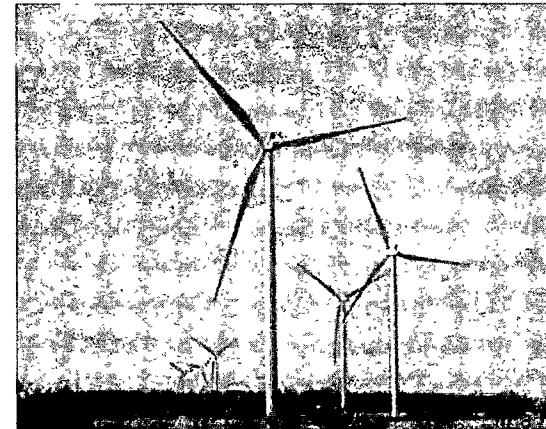


## AEP's August 1, 2019 Renewable Portfolio, in MW

| Hydro, Wind, Solar & Pumped Storage | Owned MW     | PPA MW       | Total MW     |
|-------------------------------------|--------------|--------------|--------------|
| AEP Ohio                            |              | 209          | 209          |
| Appalachian Power Company           | 785          | 575          | 1,360        |
| Indiana Michigan Power Company      | 36           | 450          | 486          |
| Public Service Company of Oklahoma  |              | 1,137        | 1,137        |
| Southwestern Electric Power Company |              | 469          | 469          |
| Competitive Wind, Solar & Hydro     | 1,437        | 175          | 1,612        |
| <b>Total</b>                        | <b>2,258</b> | <b>3,015</b> | <b>5,273</b> |



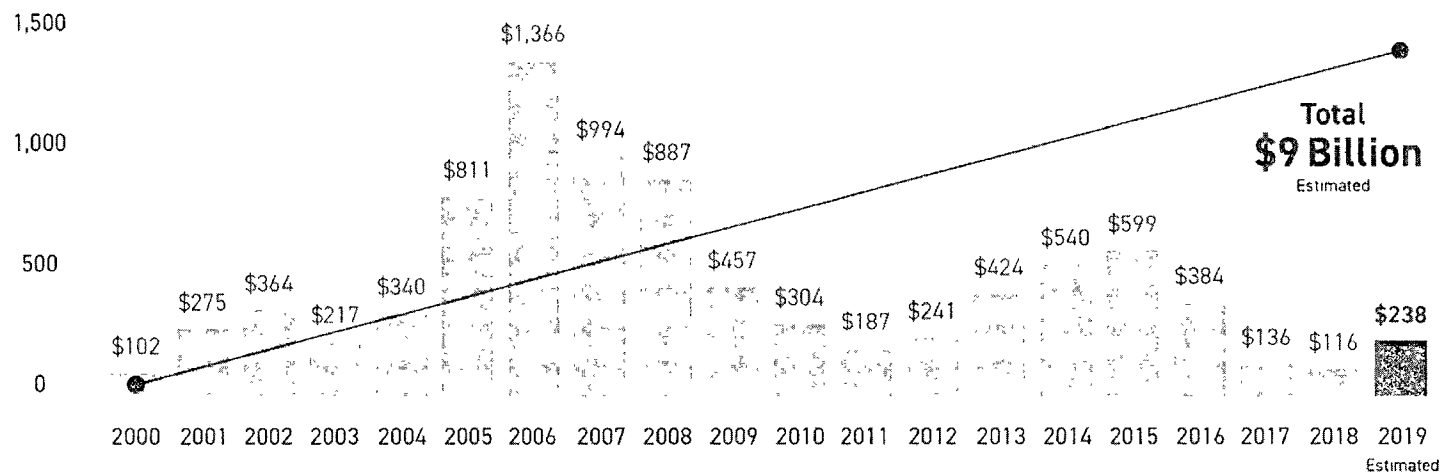
APPROXIMATELY  
**11,900 MW** of  
 Renewable Generation Interconnected  
 Across the U.S. via AEP's  
 Transmission System Today



# Largest Investment in Environmental Controls



## INVESTMENT IN ENVIRONMENTAL CONTROLS \$ in millions



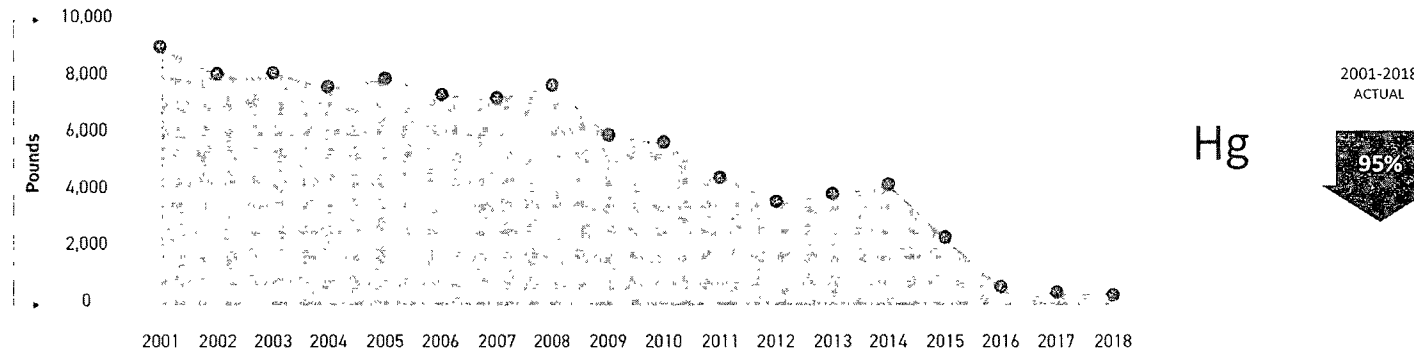
# Dramatic Reductions in Emissions



## TOTAL AEP SYSTEM NO<sub>x</sub> & SO<sub>2</sub> EMISSIONS



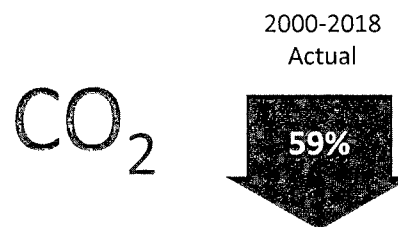
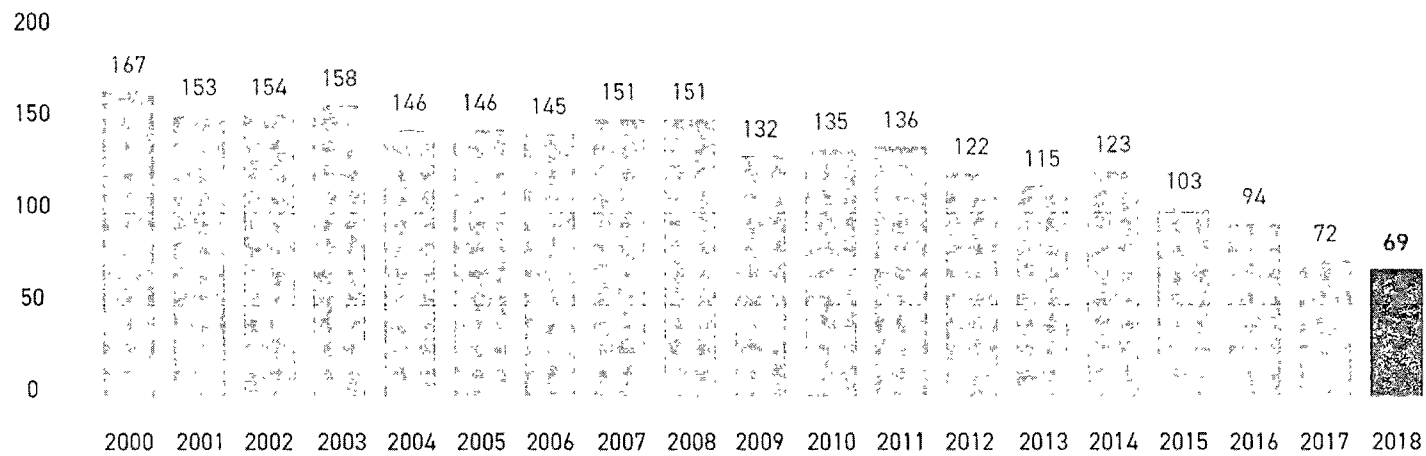
## TOTAL AEP SYSTEM MERCURY EMISSIONS

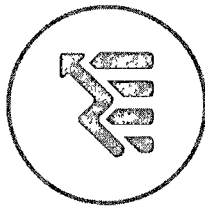


# Dramatic Reductions in Emissions

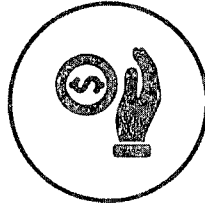


## TOTAL AEP SYSTEM – ANNUAL CO<sub>2</sub> EMISSIONS in million metric tons



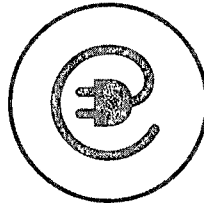


HIGHER  
growth

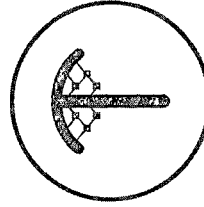


HIGHER  
dividends

The Premier Regulated  
Energy Company



MORE  
certainty



MORE  
regulated

Positioned to Deliver Superior Risk  
Adjusted Returns

**SOAH DOCKET NO. 473-21-0538  
PUC DOCKET NO. 51415**

**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO  
CITIES ADVOCATING REASONABLE DEREGULATION'S  
THIRD SET OF REQUESTS FOR INFORMATION**

**Question No. CARD 3-2:**

For all debt and equity financings, including loans from financial institutions by American Electric Power Company and/or Southwestern Electric Power Company between January 1, 2019 and the present, please provide the following: (1) the date, type, and amount of financing; (2) the investment firms and/or financial institutions associated with the financing; (3) all associated costs and expenses paid to investment firms and/or financial institutions associated with the financings, including fees and expenses, underwriting spreads, and other expenses; (4) copies of associated prospectuses, term sheets, lending agreements, private placement documents, and any other documents associated with the financings.

**Response No. CARD 3-2:**

Of the debt on the balance sheet, there has only been one Term Loan issued since January 1, 2019. Requests for 1-3 can be found in the previously filed schedules (K-3). For the loan's associated credit agreement please refer to CARD\_3\_2\_Confidential Attachment 1.

The attachment responsive to this request is CONFIDENTIAL under the terms of the Protective Order. Due to current restrictions associated with COVID-19, this information is being provided electronically and a secure login to access the information will be provided upon request to individuals who have signed the Protective Order Certification.

Prepared By: Carrie M. Luedtke

Title: Corp Finance Analyst Prin

Sponsored By: Renee V. Hawkins

Title: Mng Dir Corporate Finance

**SOAH DOCKET NO. 473-21-0538  
PUC DOCKET NO. 51415**

**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO  
CITIES ADVOCATING REASONABLE DEREGULATION'S  
THIRD SET OF REQUESTS FOR INFORMATION**

**Question No. CARD 3-3:**

Please provide: (1) copies of the source documents, data and work papers associated with the development of the Company's proposed capital structure; and (2) the data and work papers in both paper and electronic (Microsoft Excel Worksheet) forms. For the Microsoft Excel version, please include keep all formulas embedded in the worksheet.

**Response No. CARD 3-3:**

Please see Schedule K-1 - K-4 (Weighted Average Cost of Capital).xls filed with the native files of the RFP. The source documents, data and workpapers are as follows:

- Schedule B-1 (Rate Base and Return).xls – this schedule was filed with the RFP native files;
- SWEPCO 03-31-2020 WCOC.xlsx – provided electronically with this response;
- 2020\_3 FERC\_BS1\_SWP Corp Consolidated.xls – provided electronically with this response; and
- SWEPCo-T-Lock (09.12.18 Settlement) Amortization Schedule\_FINAL (2).xlsm – provided electronically with this response.

Prepared By: Carrie M. Luedtke  
Sponsored By: Renee V. Hawkins

Title: Corp Finance Analyst Prin  
Title: Mng Dir Corporate Finance

**SOAH DOCKET NO. 473-21-0538  
PUC DOCKET NO. 51415**

**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO  
CITIES ADVOCATING REASONABLE DEREGULATION'S  
THIRD SET OF REQUESTS FOR INFORMATION**

**Question No. CARD 3-4:**

Please provide: (1) the quarterly capital structure amounts and cost rates, including and excluding short-term debt, for American Electric Power Company and Southwestern Electric Power Company for the past three years (2018-2020); and (2) the work papers and data used in (1) in Microsoft Excel, with all data and formulas embedded in the worksheet.

**Response No. CARD 3-4:**

The Company does not produce this information on quarterly basis, however capital structure information can be found in the 10-Qs located on the Company's website at <https://aep.com/investors/financial>.

Prepared By: Carrie M. Luedtke  
Sponsored By: Renee V. Hawkins

Title: Corp Finance Analyst Prin  
Title: Mng Dir Corporate Finance



**SOAH DOCKET NO. 473-21-0538  
PUC DOCKET NO. 51415**

**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO  
CITIES ADVOCATING REASONABLE DEREGULATION'S  
THIRD SET OF REQUESTS FOR INFORMATION**

**Question No. CARD 3-5:**

Please provide the daily amounts outstanding and daily cost rates for short-term debt for 2019 and 2020 for American Electric Power Company and Southwestern Electric Power Company.

**Response No. CARD 3-5:**

Please see CARD\_3\_5\_Attachment 1 is Voluminous and is provided electronically on the PUC Interchange.

Prepared By: Carrie M. Luedtke  
Sponsored By: Renee V. Hawkins

Title: Corp Finance Analyst Prin  
Title: Mng Dir Corporate Finance

**SOAH DOCKET NO. 473-21-0538  
PUC DOCKET NO. 51415**

**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO  
CITIES ADVOCATING REASONABLE DEREGULATION'S  
THIRD SET OF REQUESTS FOR INFORMATION**

**Question No. CARD 3-6:**

Please provide detailed reasons, supported by financial data, as to why short-term debt was not included in the Company's proposed capital structure.

**Response No. CARD 3-6:**

The filing's exclusion of short-term debt was consistent with the Commission's Texas Rate Filing Package instructions, as well as the how schedules were prepared in the previous base case, Docket No. 46449.

Prepared By: Carrie M. Luedtke  
Sponsored By: Renee V. Hawkins

Title: Corp Finance Analyst Prin  
Title: Mng Dir Corporate Finance

**SOAH DOCKET NO. 473-21-0538  
PUC DOCKET NO. 51415**

**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO  
CITIES ADVOCATING REASONABLE DEREGULATION'S  
THIRD SET OF REQUESTS FOR INFORMATION**

**Question No. CARD 3-7:**

Please provide: (1) copies all data, work papers and calculations used in the development of the cost and amount of long-term debt; (2) detail all assumptions and show calculations for the amounts and cost of long-term debt; and (3) provide the data and work papers used for item numbers (1) and (2) in both hard copy and electronic (Microsoft Excel) formats, with all data and formulas intact.

**Response No. CARD 3-7:**

Please see the Company's response to CARD 3-3.

Prepared By: Carrie M. Luedtke

Sponsored By: Renee V. Hawkins

Title: Corp Finance Analyst Prin

Title: Mng Dir Corporate Finance

**SOAH DOCKET NO. 473-21-0538  
PUC DOCKET NO. 51415**

**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO  
CITIES ADVOCATING REASONABLE DEREGULATION'S  
THIRD SET OF REQUESTS FOR INFORMATION**

**Question No. CARD 3-8:**

Please provide copies of credit reports for American Electric Power Company and/or Southwestern Electric Power Company between January 1, 2019 and the present from the major credit rating agencies (Moody's, S&P, and Fitch).

**Response No. CARD 3-8:**

For copies of credit reports for AEP and/or SWEPCO from the major credit rating agencies, please refer to TIEC\_1\_30 HS Attachments 1-25.

Prepared By: Carrie M. Luedtke  
Sponsored By: Renee V. Hawkins

Title: Corp Finance Analyst Prin  
Title: Mng Dir Corporate Finance

**SOAH DOCKET NO. 473-21-0538  
PUC DOCKET NO. 51415**

**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO  
CITIES ADVOCATING REASONABLE DEREGULATION'S  
THIRD SET OF REQUESTS FOR INFORMATION**

**Question No. CARD 3-9:**

Please provide the corporate credit and bond ratings assigned to American Electric Power Company and Southwestern Electric Power Company since the year 2015 by S&P, Moody's, and Fitch. For any change in the credit and/or bond rating, please provide a copy of the associated report.

**Response No. CARD 3-9:**

Please refer to CARD\_3\_9\_Attachment 1 for the bond ratings since 2015. There has been no change in SWEPCO's assigned rating since 2015. Any associated rating agency reports can be found within TIEC\_1\_30 HS Attachments 1-25.

Prepared By: Carrie M. Luedtke

Title: Corp Finance Analyst Prin

Sponsored By: Renee V. Hawkins

Title: Mng Dir Corporate Finance

## Current Ratings for AEP, Inc. & Subsidiaries

| Company                                       | Moody's             |         | S&P                 |         | Fitch               |         |
|---|---------------------|---------|---------------------|---------|---------------------|---------|
|   | Senior<br>Unsecured | Outlook | Senior<br>Unsecured | Outlook | Senior<br>Unsecured | Outlook |
| American Electric Power Company Inc.          | Baa2                | S       | BBB+                | S       | BBB+                | S       |
| AEP, Inc. Short Term Rating                   | P2                  | S       | A2                  | S       | F2                  | S       |
| AEP Texas Inc                                 | Baa2                | S       | A-                  | S       | A-                  | S       |
| AEP Transmission Company, LLC                 | A2                  | S       | A-                  | S       | A                   | S       |
| Appalachian Power Company <sup>(1)</sup>      | Baa1                | S       | A-                  | S       | A-                  | S       |
| Indiana Michigan Power Company <sup>(1)</sup> | A3                  | S       | A-                  | S       | A-                  | S       |
| Kentucky Power Company                        | Baa3                | S       | A-                  | S       | BBB+                | S       |
| Ohio Power Company                            | A3                  | S       | A-                  | S       | A                   | S       |
| Public Service Company of Oklahoma            | Baa1                | S       | A-                  | S       | A-                  | S       |
| Southwestern Electric Power Company           | Baa2                | S       | A-                  | S       | BBB+                | S       |
| Transource Energy <sup>(2)</sup>              | A2                  | S       | NR                  | NR      | NR                  | NR      |

<sup>(1)</sup> In conjunction with the unenhanced VRDN remarketings, APCo and I&M both received short term credit ratings of A-2/P2 from S&P and Moody's, respectively.

## Current Ratings for AEP, Inc. & Subsidiaries

| Company                                       | Moody's             |         | S&P                 |         | Fitch <sup>(4)</sup> |         |
|---|---------------------|---------|---------------------|---------|----------------------|---------|
|   | Senior<br>Unsecured | Outlook | Senior<br>Unsecured | Outlook | Senior<br>Unsecured  | Outlook |
| American Electric Power Company Inc           | Baa1                | N       | BBB+                | S       | BBB+                 | S       |
| AEP, Inc. Short Term Rating                   | P2                  | S       | A2                  | S       | F2                   | S       |
| AEP Texas Inc.                                | Baa1                | N       | A-                  | S       | BBB+                 | S       |
| AEP Transmission Company, LLC <sup>(1)</sup>  | A2                  | S       | A-                  | S       | A-                   | S       |
| Appalachian Power Company <sup>(2)</sup>      | Baa1                | S       | A-                  | S       | BBB+                 | S       |
| Indiana Michigan Power Company <sup>(2)</sup> | A3                  | S       | A-                  | S       | BBB+                 | S       |
| Kentucky Power Company                        | Baa3                | S       | A-                  | S       | BBB+                 | S       |
| Ohio Power Company                            | A2                  | S       | A-                  | S       | A                    | S       |
| Public Service Company of Oklahoma            | A3                  | S       | A-                  | S       | BBB+                 | S       |
| Southwestern Electric Power Company           | Baa2                | S       | A-                  | S       | BBB+                 | S       |
| Transource Energy <sup>(3)</sup>              | A2                  | S       | NR                  | NR      | NR                   | NR      |

<sup>(1)</sup> AEP Transmission Co. received a senior unsecured debt rating of A- from Fitch. The rating outlook is Stable.

<sup>(2)</sup> In conjunction with the unenhanced VRDN remarketings, APCo and I&M both received short term credit ratings of A-2/P2 from S&P and Moody's, respectively

SOAH Docket No. 473-21-0538

PUC Docket No. 51415

CARD's 3rd, Q. # CARD 3-9

Attachment 1

Page 2 of 6

## Current Ratings for AEP, Inc. & Subsidiaries

| Company                                       | Moody's             |         | S&P                 |         | Fitch <sup>(4)</sup> |         |
|---|---------------------|---------|---------------------|---------|----------------------|---------|
|   | Senior<br>Unsecured | Outlook | Senior<br>Unsecured | Outlook | Senior<br>Unsecured  | Outlook |
| American Electric Power Company Inc.          | Baa1                | S       | BBB+                | S       |                      |         |
| AEP, Inc Short Term Rating                    | P2                  | S       | A2                  | S       |                      |         |
| AEP Texas Inc.                                | Baa1                | S       | A-                  | S       |                      |         |
| AEP Transmission Company, LLC <sup>(1)</sup>  | A2                  | S       | A-                  | S       | A-                   | S       |
| Appalachian Power Company <sup>(2)</sup>      | Baa1                | S       | A-                  | S       |                      |         |
| Indiana Michigan Power Company <sup>(2)</sup> | A3                  | S       | A-                  | S       |                      |         |
| Kentucky Power Company                        | Baa2                | N       | A-                  | S       |                      |         |
| Ohio Power Company                            | A2                  | S       | A-                  | S       |                      |         |
| Public Service Company of Oklahoma            | A3                  | N       | A-                  | S       |                      |         |
| Southwestern Electric Power Company           | Baa2                | S       | A-                  | S       |                      |         |
| Transource Energy <sup>(3)</sup>              | A2                  | S       | NR                  | NR      |                      |         |

<sup>(1)</sup> AEP Transmission Co. received a senior unsecured debt rating of A- from Fitch. The rating outlook is Stable.

<sup>(2)</sup> In conjunction with the unenhanced VRDN remarketings, APCo and I&M both received short term credit ratings of A-2/P2 from S&P and Moody's, respectively.

SOAH Docket No. 473-21-0538

PUC Docket No. 51415

CARD's 3rd, Q. # CARD 3-9

Attachment 1

Page 3 of 6



## Current Ratings for AEP, Inc. & Subsidiaries

| Company                                       | Moody's          |         | S&P              |         | Fitch            |         |
|---|------------------|---------|------------------|---------|------------------|---------|
|   | Senior Unsecured | Outlook | Senior Unsecured | Outlook | Senior Unsecured | Outlook |
| American Electric Power Company Inc           | Baa1             | S       | BBB+             | S       |                  |         |
| AEP, Inc Short Term Rating                    | P2               | S       | A2               | S       |                  |         |
| AEP Texas Inc                                 | Baa1             | S       | A-               | S       |                  |         |
| AEP Transmission Company, LLC <sup>(1)</sup>  | A2               | S       | A-               | S       | A-               | S       |
| Appalachian Power Company <sup>(2)</sup>      | Baa1             | S       | A-               | S       |                  |         |
| Indiana Michigan Power Company <sup>(2)</sup> | Baa1             | P       | A-               | S       |                  |         |
| Kentucky Power Company                        | Baa2             | S       | A-               | S       |                  |         |
| Ohio Power Company                            | A2               | S       | A-               | S       |                  |         |
| Public Service Company of Oklahoma            | A3               | N       | A-               | S       |                  |         |
| Southwestern Electric Power Company           | Baa2             | S       | A-               | S       |                  |         |
| Transource Energy <sup>(3)</sup>              | A2               | S       | NR               | NR      |                  |         |

<sup>(1)</sup> AEP Transmission Co received a senior unsecured debt rating of A- from Fitch. The rating outlook is Stable

<sup>(2)</sup> In conjunction with the unenhanced VRDN remarketings, APCo and I&M both received short term credit ratings of A-2/P2 from S&P and Moody's, respectively

<sup>(3)</sup> NR stands for Not Rated

SOAH Docket No. 473-21-0538  
PUC Docket No. 51415  
CARD's 3rd, Q. # CARD 3-9  
Attachment 1  
Page 4 of 6

## Current Ratings for AEP, Inc. & Subsidiaries

| Company                                      | Moody's   |         | S&P       |         | Fitch     |         |
|--|-----------|---------|-----------|---------|-----------|---------|
|  | Senior    | Outlook | Senior    | Outlook | Senior    | Outlook |
|  | Unsecured |         | Unsecured |         | Unsecured |         |
| American Electric Power Company Inc.         | Baa1      | S       | BBB       | P       |           |         |
| AEP, Inc. Short Term Rating                  | P2        | S       | A2        | S       |           |         |
| AEP Texas Central Company                    | Baa1      | S       | BBB+      | P       |           |         |
| AEP Texas North Company                      | Baa1      | S       | BBB+      | P       |           |         |
| AEP Transmission Company, LLC <sup>(1)</sup> | A2        | S       | BBB+      | P       |           |         |
| Appalachian Power Company <sup>(2)</sup>     | Baa1      | S       | BBB+      | P       |           |         |
| Indiana Michigan Power Company               | Baa1      | S       | BBB+      | P       |           |         |
| Kentucky Power Company                       | Baa2      | S       | BBB+      | P       |           |         |
| Ohio Power Company                           | Baa1      | P       | BBB+      | P       |           |         |
| Public Service Company of Oklahoma           | A3        | S       | BBB+      | P       |           |         |
| Southwestern Electric Power Company          | Baa2      | S       | BBB+      | P       |           |         |
| Transource Energy <sup>(3)</sup>             | A2        | S       | NR        | NR      |           |         |

<sup>(1)</sup> AEP Transmission Co. received a senior unsecured debt rating of A- from Fitch. The rating outlook is Stable.

<sup>(2)</sup> In conjunction with the unenhanced VRDN remarketings, APCo received short term credit ratings of A-2/P2 from S&P and Moody's, respectively.

<sup>(3)</sup> NR stands for Not Rated

SOAH Docket No. 473-21-0538

PUC Docket No. 51415

CARD's 3rd, Q. # CARD 3-9

Attachment 1

Page 5 of 6

## Current Ratings for AEP, Inc. & Subsidiaries

| Company                              | Moody's             |         | S&P                 |         |
|--------------------------------------|---------------------|---------|---------------------|---------|
|                                      | Senior<br>Unsecured | Outlook | Senior<br>Unsecured | Outlook |
| American Electric Power Company Inc. | Baa1                | S       | BBB-                | P       |
| AEP, Inc Short Term Rating           | P2                  | S       | A2                  | S       |
| AEP Texas Central Company            | Baa1                | S       | BBB                 | P       |
| AEP Texas North Company              | Baa1                | S       | BBB                 | P       |
| Appalachian Power Company            | Baa1                | S       | BBB                 | P       |
| Indiana Michigan Power Company       | Baa1                | S       | BBB                 | P       |
| Kentucky Power Company               | Baa2                | S       | BBB                 | P       |
| Ohio Power Company                   | Baa1                | S       | BBB                 | P       |
| Public Service Company of Oklahoma   | A3                  | S       | BBB                 | P       |
| Southwestern Electric Power Company  | Baa2                | S       | BBB                 | P       |

SOAH Docket No. 473-21-0538

PUC Docket No. 51415

CARD's 3rd, Q. # CARD 3-9

Attachment 1

Page 6 of 6

**SOAH DOCKET NO. 473-21-0538  
PUC DOCKET NO. 51415**

**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO  
CITIES ADVOCATING REASONABLE DEREGULATION'S  
THIRD SET OF REQUESTS FOR INFORMATION**

**Question No. CARD 3-10:**

Please provide the breakdown in the expected return on pension plan assets for Southwestern Electric Power Company. Specifically, please provide the expected return on different assets classes (bonds, US stocks, international stocks, etc) used in determining the expected return on plan assets. Please provide all associated source documents and work papers.

**Response No. CARD 3-10:**

This information can be found within the 10-Qs and 10-K that are publicly filed for the Company.

Beginning on page 169 of the most recent 10-Q the expected return on pension plan assets can be found for SWEPCo: <http://d18rn0p25nwr6d.cloudfront.net/CIK-0000004904/9d9c917a-9926-4d88-827b-cd3cd8574d02.pdf>

Within the 10-K, on page 51, expected returns can be found by asset class: <http://d18rn0p25nwr6d.cloudfront.net/CIK-0000073986/7bf26d0e-962b-4410-9362-3874af8ce3ce.pdf>

Prepared By: Carrie M. Luedtke  
Sponsored By: Renee V. Hawkins

Title: Corp Finance Analyst Prin  
Title: Mng Dir Corporate Finance

**SOAH DOCKET NO. 473-21-0538**  
**PUC DOCKET NO. 51415**

**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO**  
**CITIES ADVOCATING REASONABLE DEREGULATION'S**  
**THIRD SET OF REQUESTS FOR INFORMATION**

**Question No. CARD 3-11:**

Please provide the Company's authorized and earned return on common equity for Southwestern Electric Power Company over the past five years. Please provide copies of all associated work papers and source documents. Please provide copies of the source documents, work papers, and data in both hard copy and electronic (Microsoft Excel) formats, with all data and formulas intact.

**Response No. CARD 3-11:**

SWEPCO's authorized return on common equity over the past five years has been 9.65% as approved in PUC Docket No. 40443, and 9.60% as approved in PUC Docket No. 46449. SWEPCO's earned return on common equity over the past five years can be found within the annual Earnings Monitoring Report. Schedule III within each report contains SWEPCO's weather-adjusted Texas earned ROE. The Company files its report in mid-May each year, however please note in 2020 SWEPCO filed a revised CY19 report in July. The reports can be viewed in PDF and excel format in the following PUC projects:

- CY19 – [PUC Project No. 50655](#)
- CY18 – [PUC Project No. 49355](#)
- CY17 – [PUC Project No. 48158](#)
- CY16 – [PUC Project No. 46910](#)
- CY15 – [PUC Project No. 45636](#)

Prepared By: Carrie M. Luedtke

Title: Corp Finance Analyst Prin

Sponsored By: Renee V. Hawkins

Title: Mng Dir Corporate Finance

**SOAH DOCKET NO. 473-21-0538**  
**PUC DOCKET NO. 51415**

**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO**  
**CITIES ADVOCATING REASONABLE DEREGULATION'S**  
**THIRD SET OF REQUESTS FOR INFORMATION**

**Question No. CARD 3-12:**

For the years 2016-2020, please provide the dollar amount and dates of: (1) all equity infusions from American Electric Power Company to Southwestern Electric Power Company; and (2) all dividend payments from Southwestern Electric Power Company to American Electric Power Company.

**Response No. CARD 3-12:**

There have been no equity infusions from AEP to SWEPCO for the years 2016-2020.  
Dividend payments from SWEPCO to AEP Inc. are as follows:

| <b>YEAR</b>          | <b>2016</b>    | <b>2017</b>   | <b>2018</b>   | <b>2019</b>  | <b>2020</b> |
|----------------------|----------------|---------------|---------------|--------------|-------------|
| Dividend to AEP Inc. | \$ 120,000,000 | \$110,000,000 | \$ 65,000,000 | \$37,500,000 | \$ -        |

Prepared By: Carrie M. Luedtke

Title: Corp Finance Analyst Prin

Sponsored By: Renee V. Hawkins

Title: Mng Dir Corporate Finance

**SOAH DOCKET NO. 473-21-0538  
PUC DOCKET NO. 51415**

**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO  
CITIES ADVOCATING REASONABLE DEREGULATION'S  
THIRD SET OF REQUESTS FOR INFORMATION**

**Question No. CARD 3-13:**

Please provide copies of the financial statements (balance sheet, income statement, statement of cash flows, and the notes to the financial statements) for American Electric Power Company and Southwestern Electric Power Company for the past three years (2018-2020). Please provide copies of the financial statements in both hard copy and electronic (Microsoft Excel) formats, with all data and formulas intact.

**Response No. CARD 3-13:**

See CARD 3-13 attachments 1 through 10 for the financial statements requested

Attachment CARD 3-13 1 through 4 are Voluminous and are provided electronically on the PUC Interchange.

Prepared By: Frances K. Bourland  
Prepared By: Randall W. Hamlett

Title: Regulatory Acctg Case Mgr  
Title: Dir Regulatory Acctg Svcs

Sponsored By: Renee V. Hawkins  
Sponsored By: Michael A. Baird

Title: Mng Dir Corporate Finance  
Title: Mng Dir Acctng Policy & Rsrch

|  | December 31,          |                       |
|--|-----------------------|-----------------------|
|  | 2017                  | 2016                  |
| <b>CURRENT ASSETS</b>  |                       |                       |
| Cash and Cash Equivalents  | 214,600,000           | 210,500,000           |
| Restricted Cash (December 31, 2017 and 2016 Amounts Include \$198 and \$189.2, Respectively, Related to Transition Funding, Ohio Phase-in-Recovery Funding and Appalachian Consumer Rate Relief Funding) | 198,000,000           | 193,000,000           |
| Other Temporary Investments (December 31, 2017 and 2016 Amounts Include \$155.4 and \$133.3, Respectively, Related to EIS, Transource Energy and Sabine)   | 161,700,000           | 138,700,000           |
| Accounts Receivable:   |                       |                       |
| Customers  | 643,900,000           | 705,100,000           |
| Accrued Unbilled Revenues  | 230,200,000           | 158,700,000           |
| Pledged Accounts Receivable – AEP Credit   | 954,200,000           | 972,700,000           |
| Miscellaneous  | 101,200,000           | 118,100,000           |
| Allowance for Uncollectible Accounts   | (38,500,000)          | (37,900,000)          |
| Total Accounts Receivable  | 1,891,000,000         | 1,916,700,000         |
| Fuel   | 387,700,000           | 423,800,000           |
| Materials and Supplies   | 565,500,000           | 543,500,000           |
| Risk Management Assets   | 126,200,000           | 94,500,000            |
| Regulatory Asset for Under-Recovered Fuel Costs  | 292,500,000           | 156,600,000           |
| Margin Deposits  | 105,500,000           | 79,900,000            |
| Assets Held for Sale   | -                     | 1,951,200,000         |
| Prepayments and Other Current Assets   | 310,400,000           | 325,500,000           |
| <b>TOTAL CURRENT ASSETS</b>  | <b>4,253,100,000</b>  | <b>6,033,900,000</b>  |
| <b>PROPERTY, PLANT AND EQUIPMENT</b>   |                       |                       |
| Electric   |                       |                       |
| Generation   | 20,760,500,000        | 19,848,900,000        |
| Transmission   | 18,972,500,000        | 16,658,700,000        |
| Distribution   | 19,868,500,000        | 18,900,800,000        |
| Other Property, Plant and Equipment (Including Coal Mining and Nuclear Fuel)   | 3,706,300,000         | 3,444,300,000         |
| Construction Work in Progress  | 4,120,700,000         | 3,183,900,000         |
| Total Property, Plant and Equipment  | 67,428,500,000        | 62,036,600,000        |
| Accumulated Depreciation and Amortization  | 17,167,000,000        | 16,397,300,000        |
| <b>TOTAL PROPERTY, PLANT AND EQUIPMENT – NET</b>   | <b>50,261,500,000</b> | <b>45,639,300,000</b> |
| <b>OTHER NONCURRENT ASSETS</b>   |                       |                       |
| Regulatory Assets  | 3,587,600,000         | 5,625,500,000         |
| Securitized Assets   | 1,211,200,000         | 1,486,100,000         |
| Spent Nuclear Fuel and Decommissioning Trusts  | 2,527,600,000         | 2,256,200,000         |
| Goodwill   | 52,500,000            | 52,500,000            |
| Long-term Risk Management Assets   | 282,100,000           | 289,100,000           |
| Deferred Charges and Other Noncurrent Assets   | 2,553,500,000         | 2,085,100,000         |
| <b>TOTAL OTHER NONCURRENT ASSETS</b>   | <b>10,214,500,000</b> | <b>11,794,500,000</b> |
| <b>TOTAL ASSETS</b>  | <b>64,729,100,000</b> | <b>63,467,700,000</b> |



|  | 2017                  | 2016                  |
|--|-----------------------|-----------------------|
| <b>CURRENT LIABILITIES</b>   |                       |                       |
| Accounts Payable   | 2,065,300,000         | 1,688,500,000         |
| Short-term Debt  |                       |                       |
| Securitized Debt for Receivables – AEP Credit  | 718,000,000           | 673,000,000           |
| Other Short-term Debt  | 920,600,000           | 1,040,000,000         |
| Total Short-term Debt  | 1,638,600,000         | 1,713,000,000         |
| Long-term Debt Due Within One Year (December 31, 2017 and 2016 Amounts Include \$406.9 and \$427.5, Respectively, Related to Transition Funding, DCC Fuel, Ohio Phase-in-Recovery Funding, Appalachian Consumer Rate Relief Funding and Sabine)    | 1,753,700,000         | 2,878,000,000         |
| Risk Management Liabilities  | 61,600,000            | 53,400,000            |
| Customer Deposits  | 357,000,000           | 343,200,000           |
| Accrued Taxes  | 1,115,500,000         | 1,048,000,000         |
| Accrued Interest   | 234,500,000           | 227,200,000           |
| Regulatory Liability for Over-Recovered Fuel Costs   | 11,900,000            | 8,000,000             |
| Liabilities Held for Sale  | -                     | 235,900,000           |
| Other Current Liabilities  | 1,033,200,000         | 1,302,800,000         |
| <b>TOTAL CURRENT LIABILITIES</b>   | <b>8,271,300,000</b>  | <b>9,498,000,000</b>  |
| <b>NONCURRENT LIABILITIES</b>  |                       |                       |
| Long-term Debt (December 31, 2017 and 2016 Amounts Include \$1,410.5 and \$1,737.5, Respectively, Related to Transition Funding, DCC Fuel, Ohio Phase-in-Recovery Funding, Appalachian Consumer Rate Relief Funding, Transource Energy and Sabine) | 19,419,600,000        | 17,378,400,000        |
| Long-term Risk Management Liabilities  | 322,000,000           | 316,200,000           |
| Deferred Income Taxes  | 6,813,900,000         | 11,884,400,000        |
| Regulatory Liabilities and Deferred Investment Tax Credits   | 8,422,300,000         | 3,751,300,000         |
| Asset Retirement Obligations   | 1,925,500,000         | 1,830,600,000         |
| Employee Benefits and Pension Obligations  | 398,100,000           | 614,100,000           |
| Deferred Credits and Other Noncurrent Liabilities  | 830,900,000           | 774,600,000           |
| <b>TOTAL NONCURRENT LIABILITIES</b>  | <b>38,132,300,000</b> | <b>36,549,600,000</b> |
| <b>TOTAL LIABILITIES</b>   | <b>46,403,600,000</b> | <b>46,047,600,000</b> |
| <b>Rate Matters (Notes 4)</b>  |                       |                       |
| <b>Commitments and Contingencies (Note 6)</b>  |                       |                       |
| <b>MEZZANINE EQUITY</b>  |                       |                       |
| Contingently Redeemable Performance Share Awards   | 11,900,000            | -                     |
| <b>EQUITY</b>  |                       |                       |
| Common Stock – Par Value – \$6.50 Per Share  |                       |                       |
|  | 2017                  | 2016                  |
| Shares Authorized  | 600,000,000           | 600,000,000           |
| Shares Issued  | 512,210,644           | 512,048,520           |
| (20,205,046 and 20,336,592 Shares were Held in Treasury as of December 31, 2017 and December 31, 2016, Respectively)   |                       |                       |
| Paid-in Capital  | 3,329,400,000         | 3,328,300,000         |
| Retained Earnings  | 6,398,700,000         | 6,332,600,000         |
| Accumulated Other Comprehensive Income (Loss)  | 8,626,700,000         | 7,892,400,000         |
|  | (67,800,000)          | (156,300,000)         |
| <b>TOTAL AEP COMMON SHAREHOLDERS' EQUITY</b>   | <b>18,287,000,000</b> | <b>17,397,000,000</b> |
| <b>Noncontrolling Interests</b>  | <b>26,600,000</b>     | <b>23,100,000</b>     |
| <b>TOTAL EQUITY</b>  | <b>18,313,600,000</b> | <b>17,420,100,000</b> |
| <b>TOTAL LIABILITIES, MEZZANINE EQUITY AND TOTAL EQUITY</b>  | <b>64,729,100,000</b> | <b>63,467,700,000</b> |

|  | Years Ended December 31, |                |                |
|--|--------------------------|----------------|----------------|
|  | 2019                     | 2018           | 2017           |
| REVENUES   |                          |                |                |
| Vertically Integrated Utilities  | 9,245,700,000            | 9,556,700,000  | 9,095,100,000  |
| Transmission and Distribution Utilities                                  | 4,319,000,000            | 4,552,300,000  | 4,328,900,000  |
| Generation & Marketing   | 1,721,800,000            | 1,818,100,000  | 1,771,400,000  |
| Other Revenues   | 274,900,000              | 268,600,000    | 229,500,000    |
| TOTAL REVENUES   | 15,561,400,000           | 16,195,700,000 | 15,424,900,000 |
| EXPENSES   |                          |                |                |
| Fuel and Other Consumables Used for Electric Generation                  | 1,940,900,000            | 2,359,400,000  | 2,346,500,000  |
| Purchased Electricity for Resale   | 3,165,200,000            | 3,427,100,000  | 2,965,300,000  |
| Other Operation  | 2,743,700,000            | 2,979,200,000  | 2,525,200,000  |
| Maintenance  | 1,213,900,000            | 1,247,400,000  | 1,145,600,000  |
| Asset Impairments and Other Related Charges                              | 156,400,000              | 70,600,000     | 87,100,000     |
| Gain on Sale of Merchant Generation Assets                               | -                        | -              | (226,400,000)  |
| Depreciation and Amortization  | 2,514,500,000            | 2,286,600,000  | 1,997,200,000  |
| Taxes Other Than Income Taxes  | 1,234,500,000            | 1,142,700,000  | 1,059,400,000  |
| TOTAL EXPENSES   | 12,969,100,000           | 13,513,000,000 | 11,899,900,000 |
| OPERATING INCOME   | 2,592,300,000            | 2,682,700,000  | 3,525,000,000  |
| Other Income (Expense)   |                          |                |                |
| Interest and Investment Income   | 27,800,000               | 11,600,000     | 16,000,000     |
| Carrying Costs Income  | (1,200,000)              | 6,600,000      | 18,600,000     |
| Other Income   | 26,600,000               | 18,200,000     | 34,600,000     |
| Allowance for Equity Funds Used During Construction                      | 168,400,000              | 132,500,000    | 93,700,000     |
| Non-Service Cost Components of Net Periodic Benefit Cost                 | 120,000,000              | 124,500,000    | 45,500,000     |
| Gain on Sale of Equity Investment  | -                        | -              | 12,400,000     |
| Interest Expense   | (1,072,500,000)          | (984,400,000)  | (895,000,000)  |
| INCOME BEFORE INCOME TAX EXPENSE (BENEFIT) AND EQUITY EARNINGS           | 1,834,800,000            | 1,973,500,000  | 2,816,200,000  |
| Income Tax Expense (Benefit)   | (12,900,000)             | 115,300,000    | 969,700,000    |
| Equity Earnings of Unconsolidated Subsidiaries                           | 72,100,000               | 73,100,000     | 82,400,000     |
| NET INCOME   | 1,919,800,000            | 1,931,300,000  | 1,928,900,000  |
| Net Income (Loss) Attributable to Noncontrolling Interests               | (1,300,000)              | 7,500,000      | 16,300,000     |
| EARNINGS ATTRIBUTABLE TO AEP COMMON SHAREHOLDERS                         | 1,921,100,000            | 1,923,800,000  | 1,912,600,000  |
| WEIGHTED AVERAGE NUMBER OF BASIC AEP COMMON SHARES OUTSTANDING           | 493,694,345              | 492,774,600    | 491,814,651    |
| TOTAL BASIC EARNINGS PER SHARE ATTRIBUTABLE TO AEP COMMON SHAREHOLDERS   | 3.89                     | 3.90           | 3.89           |
| WEIGHTED AVERAGE NUMBER OF DILUTED AEP COMMON SHARES OUTSTANDING         | 495,306,238              | 493,758,277    | 492,611,067    |
| TOTAL DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO AEP COMMON SHAREHOLDERS | 3.88                     | 3.90           | 3.88           |

|  | Years Ended December 31, |               |               |
|--|--------------------------|---------------|---------------|
|  | 2019                     | 2018          | 2017          |
| Net Income   | 1,919,800,000            | 1,931,300,000 | 1,928,900,000 |
| OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAXES  |                          |               |               |
| Cash Flow Hedges, Net of Tax of \$(21.1), \$3.9 and \$(1.4) in 2019, 2018 and 2017, Respectively                               | (79,400,000)             | 14,600,000    | (2,600,000)   |
| Securities Available for Sale, Net of Tax of \$0, \$0 and \$1.9 in 2019, 2018 and 2017, Respectively                           | -                        | -             | 3,500,000     |
| Amortization of Pension and OPEB Deferred Costs, Net of Tax of \$(1.5), \$(1.4) and \$0.6 in 2019, 2018 and 2017, Respectively | (5,600,000)              | (5,300,000)   | 1,100,000     |
| Pension and OPEB Funded Status, Net of Tax of \$15.3, \$(8.8) and \$46.7 in 2019, 2018 and 2017, Respectively                  | 57,700,000               | (33,000,000)  | 86,500,000    |
| TOTAL OTHER COMPREHENSIVE INCOME (LOSS)  | (27,300,000)             | (23,700,000)  | 88,500,000    |
| TOTAL COMPREHENSIVE INCOME   | 1,892,500,000            | 1,907,600,000 | 2,017,400,000 |
| Total Comprehensive Income (Loss) Attributable To Noncontrolling Interests   | (1,300,000)              | 7,500,000     | 16,300,000    |
| TOTAL OTHER COMPREHENSIVE INCOME ATTRIBUTABLE TO AEP COMMON SHAREHOLDERS   | 1,893,800,000            | 1,900,100,000 | 2,001,100,000 |

|   | AEP Common Shareholders |               |                 |                     |  |                             | Total           |
|---|-------------------------|---------------|-----------------|---------------------|--|-----------------------------|-----------------|
|   | Common Stock            |               | Paid-in Capital | Retained Earnings   | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Noncontrolling<br>Interests |                 |
|   | Shares                  | Amount        |                 |                     |  |                             |                 |
| TOTAL EQUITY - DECEMBER 31, 2016                      | 512,000,000             | 3,328,300,000 | 6,332,600,000   | 7,892,400,000       | (156,300,000)  | 23,100,000                  | 17,420,100,000  |
| Issuance of Common Stock                              | 200,000                 | 1,100,000     | 11,100,000      |                     |  |                             | 12,200,000      |
| Common Stock Dividends                                |                         |               |                 | (1,178,300,000) (a) |  | (13,600,000)                | (1,191,900,000) |
| Other Changes in Equity                               |                         |               | 55,000,000      |                     |  | 800,000                     | 55,800,000      |
| Net Income  |                         |               |                 | 1,912,600,000       |  | 16,300,000                  | 1,928,900,000   |
| Other Comprehensive Income                            |                         |               |                 |                     | 88,500,000   |                             | 88,500,000      |
| Pension and OPEB Adjustment Related to Mitchell Plant |                         |               |                 |                     | -  |                             | -               |
| TOTAL EQUITY - DECEMBER 31, 2017                      | 512,200,000             | 3,329,400,000 | 6,398,700,000   | 8,626,700,000       | (67,800,000)   | 26,600,000                  | 18,313,600,000  |
| Issuance of Common Stock                              | 1,300,000               | 8,000,000     | 65,600,000      |                     |  |                             | 73,600,000      |
| Common Stock Dividends                                |                         |               |                 | (1,251,100,000) (a) |  | (4,400,000)                 | (1,255,500,000) |
| Other Changes in Equity                               |                         |               | 21,800,000      |                     |  | 1,300,000                   | 23,100,000      |
| ASU 2018-02 Adoption                                  |                         |               |                 | 14,000,000          | (17,000,000)   |                             | (3,000,000)     |
| ASU 2016-01 Adoption                                  |                         |               |                 | 11,900,000          | (11,900,000)   |                             | -               |
| Net Income  |                         |               |                 | 1,923,800,000       |  | 7,500,000                   | 1,931,300,000   |
| Other Comprehensive Loss                              |                         |               |                 |                     | (23,700,000)   |                             | (23,700,000)    |
| Pension and OPEB Adjustment Related to Mitchell Plant |                         |               |                 |                     | -  |                             | -               |
| TOTAL EQUITY - DECEMBER 31, 2018                      | 513,500,000             | 3,337,400,000 | 6,486,100,000   | 9,325,300,000       | (120,400,000)  | 31,000,000                  | 19,059,400,000  |
| Issuance of Common Stock                              | 900,000                 | 6,000,000     | 59,300,000      |                     |  |                             | 65,300,000      |
| Common Stock Dividends                                |                         |               |                 | (1,345,500,000) (a) |  | (4,500,000)                 | (1,350,000,000) |
| Other Changes in Equity                               |                         |               | (9,800,000) (b) |                     |  | 2,200,000                   | (7,600,000)     |
| Acquisition of Semptra Renewables LLC                 |                         |               |                 |                     |  | 134,800,000                 | 134,800,000     |
| Acquisition of Santa Rita East                        |                         |               |                 |                     |  | 118,800,000                 | 118,800,000     |
| Net Income (Loss)                                     |                         |               |                 | 1,921,100,000       |  | (1,300,000)                 | 1,919,800,000   |
| Other Comprehensive Loss                              |                         |               |                 |                     | (27,300,000)   |                             | (27,300,000)    |
| Pension and OPEB Adjustment Related to Mitchell Plant |                         |               |                 |                     | -  |                             | -               |
| TOTAL EQUITY - DECEMBER 31, 2019                      | 514,400,000             | 3,343,400,000 | 6,535,600,000   | 9,900,900,000       | (147,700,000)  | 281,000,000                 | 19,913,200,000  |

(a) Cash dividends declared per AEP common share were \$2.71, \$2.53 and \$2.39 for the years ended December 31, 2019, 2018 and 2017, respectively.

(b) Includes \$(62) million related to a forward equity purchase contract associated with the issuance of Equity Units. See "Equity Units" section of Note 14 for additional information.

|  | December 31,          |                       |
|--|-----------------------|-----------------------|
|  | 2019                  | 2018                  |
| <b>CURRENT ASSETS</b>  |                       |                       |
| Cash and Cash Equivalents  | 246,800,000           | 234,100,000           |
| Restricted Cash (December 31, 2019 and 2018 Amounts Include \$185.8 and \$210, Respectively, Related to Transition Funding, Restoration Funding, Ohio Phase-in-Recovery Funding, Appalachian Consumer Rate Relief Funding and Santa Rita East) | 185,800,000           | 210,000,000           |
| Other Temporary Investments (December 31, 2019 and 2018 Amounts Include \$187.8 and \$152.7, Respectively, Related to EIS and Transource Energy)   | 202,700,000           | 159,100,000           |
| Accounts Receivable  |                       |                       |
| Customers  | 625,300,000           | 699,000,000           |
| Accrued Unbilled Revenues  | 222,400,000           | 209,300,000           |
| Pledged Accounts Receivable – AEP Credit   | 873,900,000           | 999,800,000           |
| Miscellaneous  | 27,200,000            | 55,200,000            |
| Allowance for Uncollectible Accounts   | (43,700,000)          | (36,800,000)          |
| Total Accounts Receivable  | 1,705,100,000         | 1,926,500,000         |
| Fuel   | 528,500,000           | 319,000,000           |
| Materials and Supplies   | 640,700,000           | 602,100,000           |
| Risk Management Assets   | 172,800,000           | 162,800,000           |
| Regulatory Asset for Under-Recovered Fuel Costs  | 92,900,000            | 150,100,000           |
| Margin Deposits  | 60,400,000            | 141,400,000           |
| Prepayments and Other Current Assets   | 242,100,000           | 208,800,000           |
| <b>TOTAL CURRENT ASSETS</b>  | <b>4,077,800,000</b>  | <b>4,113,900,000</b>  |
| <b>PROPERTY, PLANT AND EQUIPMENT</b>   |                       |                       |
| Electric   |                       |                       |
| Generation   | 22,762,400,000        | 21,699,900,000        |
| Transmission   | 24,808,600,000        | 21,531,000,000        |
| Distribution   | 22,443,400,000        | 21,195,400,000        |
| Other Property, Plant and Equipment (Including Coal Mining and Nuclear Fuel)   | 4,811,500,000         | 4,265,000,000         |
| Construction Work in Progress  | 4,319,800,000         | 4,393,900,000         |
| Total Property, Plant and Equipment  | 79,145,700,000        | 73,085,200,000        |
| Accumulated Depreciation and Amortization  | 19,007,600,000        | 17,986,100,000        |
| <b>TOTAL PROPERTY, PLANT AND EQUIPMENT – NET</b>   | <b>60,138,100,000</b> | <b>55,099,100,000</b> |
| <b>OTHER NONCURRENT ASSETS</b>   |                       |                       |
| Regulatory Assets  | 3,158,800,000         | 3,310,400,000         |
| Securitized Assets   | 858,100,000           | 920,600,000           |
| Spent Nuclear Fuel and Decommissioning Trusts  | 2,975,700,000         | 2,474,900,000         |
| Goodwill   | 52,500,000            | 52,500,000            |
| Long-term Risk Management Assets   | 266,600,000           | 254,000,000           |
| Operating Lease Assets   | 957,400,000           | -                     |
| Deferred Charges and Other Noncurrent Assets   | 3,407,300,000         | 2,577,400,000         |
| <b>TOTAL OTHER NONCURRENT ASSETS</b>   | <b>11,676,400,000</b> | <b>9,589,800,000</b>  |
| <b>TOTAL ASSETS</b>  | <b>75,892,300,000</b> | <b>68,802,800,000</b> |

|   |                |                |
|---|----------------|----------------|
| CURRENT LIABILITIES   |                |                |
| Accounts Payable  | 2,085,800,000  | 1,874,300,000  |
| Short-term Debt   |                |                |
| Securitized Debt for Receivables – AEP Credit   | 710,000,000    | 750,000,000    |
| Other Short-term Debt   | 2,128,300,000  | 1,160,000,000  |
| Total Short-term Debt   | 2,838,300,000  | 1,910,000,000  |
| Long-term Debt Due Within One Year (December 31, 2019 and 2018 Amounts Include \$565.1 and \$406.5, Respectively, Related to Transition Funding, DCC Fuel, Ohio Phase-in-Recovery Funding, Appalachian Consumer Rate Relief Funding, Transource Energy, Sabine and Restoration Funding) | 1,598,700,000  | 1,698,500,000  |
| Risk Management Liabilities   | 114,300,000    | 55,000,000     |
| Customer Deposits   | 366,100,000    | 412,200,000    |
| Accrued Taxes   | 1,357,800,000  | 1,218,000,000  |
| Accrued Interest  | 243,600,000    | 231,700,000    |
| Obligations Under Operating Leases  | 234,100,000    | -              |
| Regulatory Liability for Over-Recovered Fuel Costs  | 86,600,000     | 58,600,000     |
| Other Current Liabilities   | 1,373,800,000  | 1,190,500,000  |
| TOTAL CURRENT LIABILITIES   | 10,299,100,000 | 8,648,800,000  |
| NONCURRENT LIABILITIES  |                |                |
| Long-term Debt (December 31, 2019 and 2018 Amounts Include \$907 and \$1,109.2, Respectively, Related to Transition Funding, DCC Fuel, Ohio Phase-in-Recovery Funding, Appalachian Consumer Rate Relief Funding, Transource Energy, Sabine and Restoration Funding)                     | 25,126,800,000 | 21,648,200,000 |
| Long-term Risk Management Liabilities   | 261,800,000    | 263,400,000    |
| Deferred Income Taxes   | 7,588,200,000  | 7,086,500,000  |
| Regulatory Liabilities and Deferred Investment Tax Credits  | 8,457,600,000  | 8,540,300,000  |
| Asset Retirement Obligations  | 2,216,600,000  | 2,287,700,000  |
| Employee Benefits and Pension Obligations   | 466,000,000    | 377,100,000    |
| Obligations Under Operating Leases  | 734,600,000    | -              |
| Deferred Credits and Other Noncurrent Liabilities   | 719,800,000    | 782,600,000    |
| TOTAL NONCURRENT LIABILITIES  | 45,571,400,000 | 40,985,800,000 |
| TOTAL LIABILITIES   | 55,870,500,000 | 49,634,600,000 |
| Rate Matters (Note 4)   |                |                |
| Commitments and Contingencies (Note 6)  |                |                |
| MEZZANINE EQUITY  |                |                |
| Redeemable Noncontrolling Interest  | 65,700,000     | 69,400,000     |
| Contingently Redeemable Performance Share Awards  | 42,900,000     | 39,400,000     |
| TOTAL MEZZANINE EQUITY  | 108,600,000    | 108,800,000    |
| EQUITY  |                |                |
| Common Stock – Par Value – \$6.50 Per Share   |                |                |
|   | 2019           | 2018           |
| Shares Authorized   | 600,000,000    | 600,000,000    |
| Shares Issued   | 514,373,631    | 513,450,036    |
| (20,204,160 Shares were Held in Treasury as of December 31, 2019 and 2018, Respectively)  |                |                |
| Paid-in Capital   |                | 3,343,400,000  |
| Retained Earnings   |                | 3,337,400,000  |
| Accumulated Other Comprehensive Income (Loss)   |                | 6,535,600,000  |
| TOTAL AEP COMMON SHAREHOLDERS' EQUITY   |                | 6,486,100,000  |
|   |                | 9,900,900,000  |
|   |                | 9,325,300,000  |
|   |                | (147,700,000)  |
|   |                | (120,400,000)  |
|   | 19,632,200,000 | 19,028,400,000 |
| Noncontrolling Interests  | 281,000,000    | 31,000,000     |
| TOTAL EQUITY  | 19,913,200,000 | 19,059,400,000 |
| TOTAL LIABILITIES, MEZZANINE EQUITY AND EQUITY  | 75,892,300,000 | 68,802,800,000 |

|   | Years Ended December 31, |                 |                 |
|---|--------------------------|-----------------|-----------------|
|   | 2019                     | 2018            | 2017            |
| <b>OPERATING ACTIVITIES</b>   |                          |                 |                 |
| Net Income  | 1,919,800,000            | 1,931,300,000   | 1,928,900,000   |
| Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities                     |                          |                 |                 |
| Depreciation and Amortization   | 2,514,500,000            | 2,286,600,000   | 1,997,200,000   |
| Rockport Plant, Unit 2 Operating Lease Amortization   | 136,500,000              | -               | -               |
| Deferred Income Taxes   | (17,800,000)             | 104,300,000     | 901,500,000     |
| Extraordinary Item, Net of Tax  | (17,800,000)             | 104,300,000     | 901,500,000     |
| Asset Impairments and Other Related Charges   | 156,400,000              | 70,600,000      | 87,100,000      |
| Carrying Costs Income   | 156,400,000              | 70,600,000      | 87,100,000      |
| Allowance for Equity Funds Used During Construction   | (168,400,000)            | (132,500,000)   | (93,700,000)    |
| Mark-to-Market of Risk Management Contracts   | (29,200,000)             | (66,400,000)    | (23,300,000)    |
| Amortization of Nuclear Fuel  | 89,100,000               | 113,800,000     | 129,100,000     |
| Pension and Postemployment Benefit Reserves   | (24,600,000)             | (42,800,000)    | 27,800,000      |
| Pension Contributions to Qualified Plan Trust   | -                        | -               | (93,300,000)    |
| Property Taxes  | (73,800,000)             | (59,100,000)    | (29,500,000)    |
| Deferred Fuel Over/Under-Recovery, Net  | 85,200,000               | 189,700,000     | 84,400,000      |
| Gain on Sale of Merchant Generation Assets  | -                        | -               | (226,400,000)   |
| Gain on Sale of Equity Investment   | -                        | -               | (226,400,000)   |
| Recovery of Ohio Capacity Costs, Net  | 34,100,000               | 67,700,000      | 83,200,000      |
| Refund of Global Settlement   | (16,500,000)             | (5,500,000)     | (98,200,000)    |
| Change in Other Noncurrent Assets   | (97,400,000)             | 119,800,000     | (423,900,000)   |
| Change in Other Noncurrent Liabilities  | (116,100,000)            | 129,000,000     | 181,700,000     |
| Changes in Certain Components of Working Capital  |                          |                 |                 |
| Accounts Receivable, Net  | 247,800,000              | 145,900,000     | 28,500,000      |
| Fuel, Materials and Supplies  | (248,200,000)            | 20,700,000      | 17,900,000      |
| Accounts Payable  | 5,800,000                | 36,600,000      | (58,000,000)    |
| Accrued Taxes, Net  | 138,900,000              | 153,200,000     | 91,900,000      |
| Rockport Plant, Unit 2 Operating Lease Payments   | (147,700,000)            | -               | -               |
| Other Current Assets  | 70,700,000               | 10,500,000      | (60,700,000)    |
| Other Current Liabilities   | (189,000,000)            | 149,800,000     | (181,800,000)   |
| Net Cash Flows from Operating Activities  | 4,270,100,000            | 5,223,200,000   | 4,270,400,000   |
| <b>INVESTING ACTIVITIES</b>   |                          |                 |                 |
| Construction Expenditures   | (6,051,400,000)          | (6,310,900,000) | (5,691,300,000) |
| Purchases of Investment Securities  | (1,576,000,000)          | (2,067,800,000) | (2,314,700,000) |
| Sales of Investment Securities  | 1,494,200,000            | 2,010,000,000   | 2,256,300,000   |
| Acquisitions of Nuclear Fuel  | (92,300,000)             | (46,100,000)    | (108,000,000)   |
| Acquisition of Semptra Renewables LLC and Santa Rita East, net of cash and restricted cash acquired | (918,400,000)            | -               | -               |
| Proceeds from Sale of Merchant Generation Assets  | -                        | -               | 2,159,600,000   |
| Other Investing Activities  | (600,000)                | 61,200,000      | 41,700,000      |
| Net Cash Flows Used for Investing Activities  | (7,144,500,000)          | (6,353,600,000) | (3,656,400,000) |
| <b>FINANCING ACTIVITIES</b>   |                          |                 |                 |
| Issuance of Common Stock  | 65,300,000               | 73,600,000      | 12,200,000      |
| Issuance of Long-term Debt  | 4,536,600,000            | 4,945,700,000   | 3,854,100,000   |
| Commercial Paper and Credit Facility Borrowings   | -                        | 205,600,000     | -               |
| Change in Short-term Debt, Net  | 928,300,000              | 271,400,000     | (74,400,000)    |
| Retirement of Long-term Debt  | (1,220,800,000)          | (2,782,000,000) | (3,087,900,000) |
| Commercial Paper and Credit Facility Repayments   | -                        | (205,600,000)   | -               |
| Make Whole Premium on Extinguishment of Long-term Debt  | (5,000,000)              | (13,500,000)    | (46,100,000)    |
| Principal Payments for Finance Lease Obligations  | (70,700,000)             | (65,100,000)    | (67,300,000)    |
| Dividends Paid on Common Stock  | (1,350,000,000)          | (1,255,500,000) | (1,191,900,000) |
| Other Financing Activities  | (20,800,000)             | (12,700,000)    | (3,600,000)     |
| Net Cash Flows from (Used for) Financing Activities   | 2,862,900,000            | 1,161,900,000   | (604,900,000)   |
| Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash                               | (11,500,000)             | 31,500,000      | 9,100,000       |
| Cash, Cash Equivalents and Restricted Cash at Beginning of Period                                   | 444,100,000              | 412,600,000     | 403,500,000     |
| Cash, Cash Equivalents and Restricted Cash at End of Period   | 432,600,000              | 444,100,000     | 412,600,000     |

|   | Three Months Ended<br>September 30, |                      | Nine Months Ended<br>September 30, |                       |
|---|-------------------------------------|----------------------|------------------------------------|-----------------------|
|   | 2020                                | 2019                 | 2020                               | 2019                  |
| <b>REVENUES</b>   |                                     |                      |                                    |                       |
| Vertically Integrated Utilities   | 2,400,100,000                       | 2,598,900,000        | 6,655,400,000                      | 7,087,600,000         |
| Transmission and Distribution Utilities   | 1,124,100,000                       | 1,147,300,000        | 3,208,700,000                      | 3,328,700,000         |
| Generation & Marketing  | 464,800,000                         | 501,200,000          | 1,223,400,000                      | 1,323,800,000         |
| Other Revenues  | 77,400,000                          | 67,600,000           | 220,400,000                        | 205,300,000           |
| <b>TOTAL REVENUES</b>   | <b>4,066,400,000</b>                | <b>4,315,000,000</b> | <b>11,307,900,000</b>              | <b>11,945,400,000</b> |
| <b>EXPENSES</b>   |                                     |                      |                                    |                       |
| Fuel and Other Consumables Used for Electric Generation                         | 459,300,000                         | 631,200,000          | 1,174,900,000                      | 1,662,500,000         |
| Purchased Electricity for Resale  | 741,100,000                         | 783,900,000          | 2,141,400,000                      | 2,306,400,000         |
| Other Operation   | 702,900,000                         | 708,300,000          | 1,871,000,000                      | 1,981,700,000         |
| Maintenance   | 237,600,000                         | 267,700,000          | 730,500,000                        | 890,900,000           |
| Depreciation and Amortization   | 644,600,000                         | 645,200,000          | 1,996,300,000                      | 1,873,600,000         |
| Taxes Other Than Income Taxes   | 337,700,000                         | 320,500,000          | 976,300,000                        | 932,700,000           |
| <b>TOTAL EXPENSES</b>   | <b>3,123,200,000</b>                | <b>3,356,800,000</b> | <b>8,890,400,000</b>               | <b>9,647,800,000</b>  |
| <b>OPERATING INCOME</b>   | <b>943,200,000</b>                  | <b>958,200,000</b>   | <b>2,417,500,000</b>               | <b>2,297,600,000</b>  |
| <b>Other Income (Expense)</b>   |                                     |                      |                                    |                       |
| Other Income  | 5,500,000                           | 3,200,000            | 15,400,000                         | 18,400,000            |
| Allowance for Equity Funds Used During Construction                             | 45,200,000                          | 43,000,000           | 111,700,000                        | 122,300,000           |
| Non-Service Cost Components of Net Periodic Benefit Cost                        | 29,700,000                          | 30,000,000           | 89,200,000                         | 90,000,000            |
| Interest Expense  | (291,300,000)                       | (275,100,000)        | (877,400,000)                      | (781,600,000)         |
| <b>INCOME BEFORE INCOME TAX EXPENSE (BENEFIT) AND EQUITY EARNINGS</b>           | <b>732,300,000</b>                  | <b>759,300,000</b>   | <b>1,756,400,000</b>               | <b>1,746,700,000</b>  |
| Income Tax Expense (Benefit)  | (1,200,000)                         | 40,600,000           | 57,900,000                         | 30,700,000            |
| Equity Earnings of Unconsolidated Subsidiaries                                  | 14,700,000                          | 15,200,000           | 63,500,000                         | 51,100,000            |
| <b>NET INCOME</b>   | <b>748,200,000</b>                  | <b>733,900,000</b>   | <b>1,762,000,000</b>               | <b>1,767,100,000</b>  |
| Net Income (Loss) Attributable to Noncontrolling Interests                      | (400,000)                           | 400,000              | (2,600,000)                        | (500,000)             |
| <b>EARNINGS ATTRIBUTABLE TO AEP COMMON SHAREHOLDERS</b>                         | <b>748,600,000</b>                  | <b>733,500,000</b>   | <b>1,764,600,000</b>               | <b>1,767,600,000</b>  |
| <b>WEIGHTED AVERAGE NUMBER OF BASIC AEP COMMON SHARES OUTSTANDING</b>           | <b>496,177,968</b>                  | <b>493,839,034</b>   | <b>495,479,190</b>                 | <b>493,579,430</b>    |
| <b>TOTAL BASIC EARNINGS PER SHARE ATTRIBUTABLE TO AEP COMMON SHAREHOLDERS</b>   | <b>1 51</b>                         | <b>1 49</b>          | <b>3 56</b>                        | <b>3 58</b>           |
| <b>WEIGHTED AVERAGE NUMBER OF DILUTED AEP COMMON SHARES OUTSTANDING</b>         | <b>497,458,523</b>                  | <b>495,461,509</b>   | <b>496,916,187</b>                 | <b>495,105,986</b>    |
| <b>TOTAL DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO AEP COMMON SHAREHOLDERS</b> | <b>1 50</b>                         | <b>1 48</b>          | <b>3 55</b>                        | <b>3 57</b>           |



|  | Three Months Ended<br>September 30, |             | Nine Months Ended<br>September 30, |               |
|--|-------------------------------------|-------------|------------------------------------|---------------|
|  | 2020                                | 2019        | 2020                               | 2019          |
| Net Income   | 748,200,000                         | 733,900,000 | 1,762,000,000                      | 1,767,100,000 |
| OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAXES  |                                     |             |                                    |               |
| Cash Flow Hedges, Net of Tax of \$10.5 and \$11.8 for the Three Months Ended September 30, 2020 and 2019, Respectively, and \$4.7 and \$(16.8) for the Nine Months Ended September 30, 2020 and 2019, Respectively                                   | 39,300,000                          | 44,200,000  | 17,600,000                         | (63,300,000)  |
| Amortization of Pension and OPEB Deferred Costs, Net of Tax of \$(0.5) and \$(0.4) for the Three Months Ended September 30, 2020 and 2019, Respectively, and \$(1.4) and \$(1.1) for the Nine Months Ended September 30, 2020 and 2019, Respectively | (1,800,000)                         | (1,400,000) | (5,300,000)                        | (4,200,000)   |
| TOTAL OTHER COMPREHENSIVE INCOME (LOSS)  | 37,500,000                          | 42,800,000  | 12,300,000                         | (67,500,000)  |
| TOTAL COMPREHENSIVE INCOME   | 785,700,000                         | 776,700,000 | 1,774,300,000                      | 1,699,600,000 |
| Total Other Comprehensive Income (Loss) Attributable To Noncontrolling Interests   | (400,000)                           | 400,000     | (2,600,000)                        | (500,000)     |
| TOTAL OTHER COMPREHENSIVE INCOME ATTRIBUTABLE TO AEP COMMON SHAREHOLDERS   | 786,100,000                         | 776,300,000 | 1,776,900,000                      | 1,700,100,000 |

|                                      | Common Stock   |                  | AEP Common Shareholders |                      | Accumulated<br>Other<br>Comprehensive<br>(120,400,000 00) | Noncontrolling<br>Interests<br>31,000,000 00 | Total             |
|--------------------------------------|----------------|------------------|-------------------------|----------------------|---|--|-------------------|
|                                      | Shares         | Amount           | Paid-in Capital         | Retained Earnings    |   |  |                   |
| TOTAL EQUITY - DECEMBER 31, 2018     | 513,500,000 00 | 3,337,400,000 00 | 6,486,100,000 00        | 9,325,300,000 00     | (120,400,000 00)  | 31,000,000 00                                | 19,059,400,000 00 |
| Issuance of Common Stock             | 100,000 00     | 1,200,000 00     | 13,300,000 00           |                      |   |  | 14,500,000 00     |
| Common Stock Dividends               |                |                  |                         | (332,500,000 00) (b) |   | (1,100,000 00)                               | (333,600,000 00)  |
| Other Changes in Equity              |                |                  | (56,600,000 00) (a)     |                      |   | 1,000,000 00                                 | (55,600,000 00)   |
| Net Income                           |                |                  |                         | 572,800,000 00       |   | 1,300,000 00                                 | 574,100,000 00    |
| Other Comprehensive Loss             |                |                  |                         |                      | (30,300,000 00)   |  | (30,300,000 00)   |
| TOTAL EQUITY - MARCH 31, 2019        | 513,600,000 00 | 3,338,600,000 00 | 6,442,800,000 00        | 9,565,600,000 00     | (150,700,000 00)  | 32,200,000 00                                | 19,228,500,000 00 |
| Issuance of Common Stock             | 400,000 00     | 2,200,000 00     | 15,600,000 00           |                      |   |  | 17,800,000 00     |
| Common Stock Dividends               |                |                  |                         | (332,700,000 00) (b) |   | (1,800,000 00)                               | (334,500,000 00)  |
| Other Changes in Equity              |                |                  | (3,100,000 00)          |                      |   | 600,000 00                                   | (2,500,000 00)    |
| Acquisition of Sempra Renewables LLC |                |                  |                         |                      |   | 134,800,000 00                               | 134,800,000 00    |
| Net Income (Loss)                    |                |                  |                         | 461,300,000 00       |   | (2,200,000 00)                               | 459,100,000 00    |
| Other Comprehensive Loss             |                |                  |                         |                      | (80,000,000 00)   |  | (80,000,000 00)   |
| TOTAL EQUITY - JUNE 30, 2019         | 514,000,000 00 | 3,340,800,000 00 | 6,455,300,000 00        | 9,694,200,000 00     | (230,700,000 00)  | 163,600,000 00                               | 19,423,200,000 00 |
| Issuance of Common Stock             | 100,000 00     | 1,100,000 00     | 11,300,000 00           |                      |   |  | 12,400,000 00     |
| Common Stock Dividends               |                |                  |                         | (332,400,000 00) (b) |   | (1,500,000 00)                               | (333,900,000 00)  |
| Other Changes in Equity              |                |                  | 500,000 00              |                      |   |  | 500,000 00        |
| Acquisition of Santa Rita East       |                |                  |                         |                      |   | 118,800,000 00                               | 118,800,000 00    |
| Net Income                           |                |                  |                         | 733,500,000 00       |   | 400,000 00                                   | 733,900,000 00    |
| Other Comprehensive Income           |                |                  |                         |                      | 42,800,000 00   |  | 42,800,000 00     |
| TOTAL EQUITY - SEPTEMBER 30, 2019    | 514,100,000 00 | 3,341,900,000 00 | 6,467,100,000 00        | 10,095,300,000 00    | (187,900,000 00)  | 281,300,000 00                               | 19,997,700,000 00 |
| TOTAL EQUITY - DECEMBER 31, 2019     | 514,400,000 00 | 3,343,400,000 00 | 6,535,600,000 00        | 9,900,900,000 00     | (147,700,000 00)  | 281,000,000 00                               | 19,913,200,000 00 |
| Issuance of Common Stock             | 1,000,000 00   | 6,800,000 00     | 49,300,000 00           |                      |   |  | 56,100,000 00     |
| Common Stock Dividends               |                |                  |                         | (359,100,000 00) (c) |   | (4,600,000 00)                               | (363,700,000 00)  |
| Other Changes in Equity              |                |                  | (29,000,000 00)         |                      |   | (1,200,000 00)                               | (30,200,000 00)   |
| ASU 2016-13 Adoption                 |                |                  |                         | 1,800,000 00         |   |  | 1,800,000 00      |
| Net Income                           |                |                  |                         | 495,200,000 00       |   | 4,100,000 00                                 | 499,300,000 00    |
| Other Comprehensive Loss             |                |                  |                         |                      | (68,800,000 00)   |  | (68,800,000 00)   |
| TOTAL EQUITY - MARCH 31, 2020        | 515,400,000 00 | 3,350,200,000 00 | 6,555,900,000 00        | 10,038,800,000 00    | (216,500,000 00)  | 279,300,000 00                               | 20,007,700,000 00 |
| Issuance of Common Stock             | 800,000 00     | 5,200,000 00     | 49,700,000 00           |                      |   |  | 54,900,000 00     |
| Common Stock Dividends               |                |                  |                         | (337,700,000 00) (c) |   | (3,200,000 00)                               | (340,900,000 00)  |
| Other Changes in Equity              |                |                  | (2,600,000 00)          |                      |   | 1,000,000 00                                 | (1,600,000 00)    |
| Net Income (Loss)                    |                |                  |                         | 520,800,000 00       |   | (6,300,000 00)                               | 514,500,000 00    |
| Other Comprehensive Income           |                |                  |                         |                      | 43,600,000 00   |  | 43,600,000 00     |
| TOTAL EQUITY - JUNE 30, 2020         | 516,200,000 00 | 3,355,400,000 00 | 6,603,000,000 00        | 10,221,900,000 00    | (172,900,000 00)  | 270,800,000 00                               | 20,278,200,000 00 |
| Issuance of Common Stock             | 400,000 00     | 2,200,000 00     | 23,300,000 00           |                      |   |  | 25,500,000 00     |
| Common Stock Dividends               |                |                  |                         | (349,100,000 00) (c) |   | (2,000,000 00)                               | (351,100,000 00)  |
| Other Changes in Equity              |                |                  | (104,000,000 00) (d)    |                      |   | 300,000 00                                   | (103,700,000 00)  |
| Net Income (Loss)                    |                |                  |                         | 748,600,000 00       |   | (400,000 00)                                 | 748,200,000 00    |
| Other Comprehensive Income           |                |                  |                         |                      | 37,500,000 00   |  | 37,500,000 00     |
| TOTAL EQUITY - SEPTEMBER 30, 2020    | 516,600,000 00 | 3,357,600,000 00 | 6,522,300,000 00        | 10,621,400,000 00    | (135,400,000 00)  | 268,700,000 00                               | 20,634,600,000 00 |

(a) Includes \$(62) million related to a forward equity purchase contract associated with the issuance of Equity Units

(b) Cash dividends declared per AEP common share were \$0.67

(c) Cash dividends declared per AEP common share were \$0.70

(d) Includes \$(121) million related to a forward equity purchase contract associated with the issuance of Equity Units

|   | September 30,<br>2020    | December 31,<br>2019     |
|---|--------------------------|--------------------------|
| <b>CURRENT ASSETS</b>   |                          |                          |
| Cash and Cash Equivalents   | 409,700,000 00           | 246,800,000 00           |
| Restricted Cash (September 30, 2020 and December 31, 2019 Amounts Include \$54.1 and \$185.8, Respectively, Related to Transition Funding, Restoration Funding, Appalachian Consumer Rate Relief Funding and Santa Rita East) | 54,100,000 00            | 185,800,000 00           |
| Other Temporary Investments (September 30, 2020 and December 31, 2019 Amounts Include \$198 and \$187.8, Respectively, Related to EIS and Transource Energy)  | 209,000,000.00           | 202,700,000 00           |
| Accounts Receivable:  |                          |                          |
| Customers   | 600,500,000 00           | 625,300,000 00           |
| Accrued Unbilled Revenues   | 212,400,000 00           | 222,400,000 00           |
| Pledged Accounts Receivable – AEP Credit  | 1,055,100,000.00         | 873,900,000 00           |
| Miscellaneous   | 46,100,000.00            | 27,200,000 00            |
| Allowance for Uncollectible Accounts  | (63,400,000.00)          | (43,700,000 00)          |
| Total Accounts Receivable   | 1,850,700,000 00         | 1,705,100,000 00         |
| Fuel  | 586,100,000 00           | 528,500,000 00           |
| Materials and Supplies  | 681,200,000 00           | 640,700,000 00           |
| Risk Management Assets  | 115,200,000 00           | 172,800,000 00           |
| Regulatory Asset for Under-Recovered Fuel Costs   | 61,400,000 00            | 92,900,000 00            |
| Margin Deposits   | 54,100,000 00            | 60,400,000 00            |
| Prepayments and Other Current Assets  | 316,700,000 00           | 242,100,000 00           |
| <b>TOTAL CURRENT ASSETS</b>   | <b>4,338,200,000 00</b>  | <b>4,077,800,000 00</b>  |
| <b>PROPERTY, PLANT AND EQUIPMENT</b>  |                          |                          |
| Electric  |                          |                          |
| Generation  | 23,036,900,000 00        | 22,762,400,000 00        |
| Transmission  | 26,539,100,000 00        | 24,808,600,000 00        |
| Distribution  | 23,459,800,000 00        | 22,443,400,000 00        |
| Other Property, Plant and Equipment (Including Coal Mining and Nuclear Fuel)  | 5,204,700,000 00         | 4,811,500,000 00         |
| Construction Work in Progress   | 4,662,500,000 00         | 4,319,800,000 00         |
| Total Property, Plant and Equipment   | 82,903,000,000 00        | 79,145,700,000 00        |
| Accumulated Depreciation and Amortization   | 20,116,600,000 00        | 19,007,600,000 00        |
| <b>TOTAL PROPERTY, PLANT AND EQUIPMENT – NET</b>  | <b>62,786,400,000 00</b> | <b>60,138,100,000 00</b> |
| <b>OTHER NONCURRENT ASSETS</b>  |                          |                          |
| Regulatory Assets   | 3,518,800,000 00         | 3,158,800,000 00         |
| Securitized Assets  | 684,000,000 00           | 858,100,000 00           |
| Spent Nuclear Fuel and Decommissioning Trusts   | 3,075,900,000 00         | 2,975,700,000 00         |
| Goodwill  | 52,500,000 00            | 52,500,000 00            |
| Long-term Risk Management Assets  | 242,900,000 00           | 266,600,000 00           |
| Operating Lease Assets  | 881,000,000 00           | 957,400,000 00           |
| Deferred Charges and Other Noncurrent Assets  | 3,109,600,000 00         | 3,407,300,000 00         |
| <b>TOTAL OTHER NONCURRENT ASSETS</b>  | <b>11,564,700,000 00</b> | <b>11,676,400,000 00</b> |
| <b>TOTAL ASSETS</b>   | <b>78,689,300,000 00</b> | <b>75,892,300,000 00</b> |

|  | September 30,<br>2020    | December 31,<br>2019     |
|--|--------------------------|--------------------------|
| <b>CURRENT LIABILITIES</b>   |                          |                          |
| Accounts Payable   | 1,659,600,000 00         | 2,085,800,000 00         |
| Short-term Debt  |                          |                          |
| Securitized Debt for Receivables – AEP Credit                                  | 703,000,000 00           | 710,000,000 00           |
| Other Short-term Debt  | 1,694,000,000 00         | 2,128,300,000 00         |
| Total Short-term Debt  | 2,397,000,000 00         | 2,838,300,000 00         |
| Long-term Debt Due Within One Year (September 30, 2020 and December 31, 2019)  | 1,911,600,000 00         | 1,598,700,000 00         |
| Risk Management Liabilities  | 62,400,000 00            | 114,300,000 00           |
| Customer Deposits  | 339,700,000 00           | 366,100,000 00           |
| Accrued Taxes  | 942,700,000 00           | 1,357,800,000 00         |
| Accrued Interest   | 331,000,000 00           | 243,600,000 00           |
| Obligations Under Operating Leases   | 236,500,000 00           | 234,100,000 00           |
| Regulatory Liability for Over-Recovered Fuel Costs                             | 82,500,000 00            | 86,600,000 00            |
| Other Current Liabilities  | 1,084,200,000 00         | 1,373,800,000 00         |
| <b>TOTAL CURRENT LIABILITIES</b>   | <b>9,047,200,000 00</b>  | <b>10,299,100,000 00</b> |
| <b>NONCURRENT LIABILITIES</b>  |                          |                          |
| Long-term Debt (September 30, 2020 and December 31, 2019 Amounts Include       | 28,155,500,000 00        | 25,126,800,000 00        |
| Long-term Risk Management Liabilities  | 232,400,000 00           | 261,800,000 00           |
| Deferred Income Taxes  | 8,011,400,000 00         | 7,588,200,000 00         |
| Regulatory Liabilities and Deferred Investment Tax Credits                     | 8,249,200,000 00         | 8,457,600,000 00         |
| Asset Retirement Obligations   | 2,448,300,000 00         | 2,216,600,000 00         |
| Employee Benefits and Pension Obligations                                      | 353,100,000 00           | 466,000,000 00           |
| Obligations Under Operating Leases   | 690,500,000 00           | 734,600,000 00           |
| Deferred Credits and Other Noncurrent Liabilities                              | 794,600,000 00           | 719,800,000 00           |
| <b>TOTAL NONCURRENT LIABILITIES</b>  | <b>48,935,000,000 00</b> | <b>45,571,400,000 00</b> |
| <b>TOTAL LIABILITIES</b>   | <b>57,982,200,000 00</b> | <b>55,870,500,000 00</b> |
| <b>Rate Matters (Note 4)</b>   |                          |                          |
| <b>Commitments and Contingencies (Note 5)</b>                                  |                          |                          |
| <b>MEZZANINE EQUITY</b>  |                          |                          |
| Redeemable Noncontrolling Interest   | -                        | 65,700,000 00            |
| Contingently Redeemable Performance Share Awards                               | 72,500,000 00            | 42,900,000 00            |
| <b>TOTAL MEZZANINE EQUITY</b>  | <b>72,500,000 00</b>     | <b>108,600,000 00</b>    |
| <b>EQUITY</b>  |                          |                          |
| Common Stock – Par Value – \$6.50 Per Share                                    |                          |                          |
|  | 2020                     | 2019                     |
| Shares Authorized  | 600,000,000 00           | 600,000,000 00           |
| Shares Issued  | 516,551,408 00           | 514,373,631 00           |
| (20,204,160 Shares were Held in Treasury as of September 30, 2020 and December |                          |                          |
| Paid-in Capital  | 3,357,600,000 00         | 3,343,400,000 00         |
| Retained Earnings  | 6,522,300,000 00         | 6,535,600,000 00         |
| Accumulated Other Comprehensive Income (Loss)                                  | 10,621,400,000 00        | 9,900,900,000 00         |
|  | (135,400,000 00)         | (147,700,000 00)         |
| <b>TOTAL AEP COMMON SHAREHOLDERS' EQUITY</b>                                   | <b>20,365,900,000 00</b> | <b>19,632,200,000 00</b> |
| Noncontrolling Interests   | 268,700,000 00           | 281,000,000 00           |
| <b>TOTAL EQUITY</b>  | <b>20,634,600,000 00</b> | <b>19,913,200,000 00</b> |
| <b>TOTAL LIABILITIES, MEZZANINE EQUITY AND TOTAL EQUITY</b>                    | <b>78,689,300,000 00</b> | <b>75,892,300,000 00</b> |

|   | Nine Months Ended September 30,<br>2020 | 2019            |
|---|---|-----------------|
| <b>OPERATING ACTIVITIES</b>   |   |                 |
| Net Income  | 1,762,000,000                           | 1,767,100,000   |
| Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities                     |   |                 |
| Depreciation and Amortization   | 1,996,300,000                           | 1,873,600,000   |
| Deferred Income Taxes   | 142,500,000                             | 15,900,000      |
| Allowance for Equity Funds Used During Construction   | (111,700,000)                           | (122,300,000)   |
| Mark-to-Market of Risk Management Contracts   | 46,400,000                              | (41,600,000)    |
| Amortization of Nuclear Fuel  | 67,200,000                              | 71,600,000      |
| Pension Contributions to Qualified Plan Trust   | (110,300,000)                           | -               |
| Property Taxes  | 396,900,000                             | 341,700,000     |
| Deferred Fuel Over/Under-Recovery, Net  | 27,400,000                              | 93,700,000      |
| Recovery of Ohio Capacity Costs   | -                                       | 34,100,000      |
| Refund of Global Settlement   | -                                       | (12,400,000)    |
| Change in Other Noncurrent Assets   | (219,600,000)                           | (9,600,000)     |
| Change in Other Noncurrent Liabilities  | (25,100,000)                            | (16,300,000)    |
| Changes in Certain Components of Working Capital  |   |                 |
| Accounts Receivable, Net  | (138,900,000)                           | 125,000,000     |
| Fuel, Materials and Supplies  | (97,400,000)                            | (116,600,000)   |
| Accounts Payable  | 21,900,000                              | (32,400,000)    |
| Accrued Taxes, Net  | (502,900,000)                           | (359,900,000)   |
| Other Current Assets  | 26,000,000                              | 60,200,000      |
| Other Current Liabilities   | (358,500,000)                           | (321,900,000)   |
| Net Cash Flows from Operating Activities  | 2,922,200,000                           | 3,349,900,000   |
| <b>INVESTING ACTIVITIES</b>   |   |                 |
| Construction Expenditures   | (4,690,400,000)                         | (4,336,000,000) |
| Purchases of Investment Securities  | (1,329,500,000)                         | (951,500,000)   |
| Sales of Investment Securities  | 1,293,000,000                           | 874,200,000     |
| Acquisitions of Nuclear Fuel  | (68,400,000)                            | (91,900,000)    |
| Acquisition of Semptra Renewables LLC and Santa Rita East, Net of Cash and Restricted Cash Acquired | -                                       | (921,300,000)   |
| Other Investing Activities  | 88,000,000                              | 68,900,000      |
| Net Cash Flows Used for Investing Activities  | (4,707,300,000)                         | (5,357,600,000) |
| <b>FINANCING ACTIVITIES</b>   |   |                 |
| Issuance of Common Stock  | 136,500,000                             | 44,700,000      |
| Issuance of Long-term Debt  | 3,985,800,000                           | 3,492,400,000   |
| Issuance of Short-term Debt with Original Maturities greater than 90 Days                           | 1,304,500,000                           | -               |
| Change in Short-term Debt with Original Maturities less than 90 Days, Net                           | (1,445,800,000)                         | 600,000,000     |
| Retirement of Long-term Debt  | (700,500,000)                           | (1,023,500,000) |
| Make Whole Premium on Extinguishment of Long-term Debt  | -                                       | (5,000,000)     |
| Redemption of Short-term Debt with Original Maturities Greater than 90 Days                         | (300,000,000)                           | -               |
| Principal Payments for Finance Lease Obligations  | (46,300,000)                            | (44,500,000)    |
| Dividends Paid on Common Stock  | (1,055,700,000)                         | (1,002,000,000) |
| Redemption of Noncontrolling Interest in Trent and Desert Sky Windfarms                             | (56,500,000)                            | -               |
| Other Financing Activities  | (5,700,000)                             | (8,700,000)     |
| Net Cash Flows from Financing Activities  | 1,816,300,000                           | 2,053,400,000   |
| Net Increase in Cash, Cash Equivalents and Restricted Cash  | 31,200,000                              | 45,700,000      |
| Cash, Cash Equivalents and Restricted Cash at Beginning of Period                                   | 432,600,000                             | 444,100,000     |
| Cash, Cash Equivalents and Restricted Cash at End of Period   | 463,800,000                             | 489,800,000     |
| <b>SUPPLEMENTARY INFORMATION</b>  |   |                 |
| Cash Paid for Interest, Net of Capitalized Amounts  | 690,500,000                             | 689,700,000     |
| Net Cash Paid (Received) for Income Taxes   | (23,900,000)                            | 22,800,000      |
| Noncash Acquisitions Under Finance Leases   | 33,000,000                              | 66,700,000      |
| Construction Expenditures Included in Current Liabilities as of September 30,                       | 830,100,000                             | 1,018,900,000   |
| Construction Expenditures Included in Noncurrent Liabilities as of September 30,                    | 8,300,000                               | -               |
| Acquisition of Nuclear Fuel Included in Current Liabilities as of September 30,                     | 1,000,000                               | -               |
| Expected Reimbursement for Spent Nuclear Fuel Dry Cask Storage                                      | 2,400,000                               | -               |
| Noncontrolling Interest assumed with Semptra Renewable LLC and Santa Rita East Acquisition          | -                                       | 253,400,000     |
| Liabilities assumed with Semptra Renewable LLC and Santa Rita East Acquisition                      | -                                       | 32,400,000      |
| Forward Equity Purchase Contract Included in Current and Noncurrent Liabilities as of September 30, | 120,600,000                             | 52,400,000      |

|  | December 31,         |                      |
|--|----------------------|----------------------|
|  | 2017                 | 2018                 |
| <b>CURRENT LIABILITIES</b>                                 |                      |                      |
| Advances from Affiliates                                   | 118,700,000          | -                    |
| Accounts Payable.  |                      |                      |
| General  | 160,400,000          | 117,500,000          |
| Affiliated Companies                                       | 63,700,000           | 68,500,000           |
| Short-term Debt – Nonaffiliated                            | 22,000,000           | -                    |
| Long-term Debt Due Within One Year – Nonaffiliated         | 3,700,000            | 353,700,000          |
| Risk Management Liabilities                                | 200,000              | 300,000              |
| Customer Deposits  | 62,100,000           | 62,100,000           |
| Accrued Taxes  | 39,000,000           | 40,900,000           |
| Accrued Interest   | 38,900,000           | 45,100,000           |
| Obligations Under Capital Leases                           | 11,200,000           | 11,800,000           |
| Other Current Liabilities                                  | 78,700,000           | 83,900,000           |
| <b>TOTAL CURRENT LIABILITIES</b>                           | <b>598,600,000</b>   | <b>783,800,000</b>   |
| <b>NONCURRENT LIABILITIES</b>                              |                      |                      |
| Long-term Debt – Nonaffiliated                             | 2,438,200,000        | 2,325,400,000        |
| Deferred Income Taxes                                      | 917,700,000          | 1,606,900,000        |
| Regulatory Liabilities and Deferred Investment Tax Credits | 896,400,000          | 438,900,000          |
| Asset Retirement Obligations                               | 160,300,000          | 147,100,000          |
| Employee Benefits and Pension Obligations                  | 19,500,000           | 34,100,000           |
| Obligations Under Capital Leases                           | 57,800,000           | 65,500,000           |
| Deferred Credits and Other Noncurrent Liabilities          | 19,900,000           | 9,700,000            |
| <b>TOTAL NONCURRENT LIABILITIES</b>                        | <b>4,509,800,000</b> | <b>4,627,600,000</b> |
| <b>TOTAL LIABILITIES</b>                                   | <b>5,108,400,000</b> | <b>5,411,400,000</b> |
| Rate Matters (Notes 4)                                     |                      |                      |
| Commitments and Contingencies (Note 6)                     |                      |                      |
| <b>EQUITY</b>  |                      |                      |
| Common Stock – Par Value – \$18 Per Share.                 |                      |                      |
| Authorized – 7,600,000 Shares                              |                      |                      |
| Outstanding – 7,536,640 Shares                             | 135,700,000          | 135,700,000          |
| Paid-in Capital  | 676,600,000          | 676,600,000          |
| Retained Earnings  | 1,426,600,000        | 1,411,900,000        |
| Accumulated Other Comprehensive Income (Loss)              | (4,000,000)          | (9,400,000)          |
| <b>TOTAL COMMON SHAREHOLDER'S EQUITY</b>                   | <b>2,234,900,000</b> | <b>2,214,800,000</b> |
| Noncontrolling Interest                                    | (400,000)            | 400,000              |
| <b>TOTAL EQUITY</b>  | <b>2,234,500,000</b> | <b>2,215,200,000</b> |
| <b>TOTAL LIABILITIES AND EQUITY</b>                        | <b>7,342,900,000</b> | <b>7,626,600,000</b> |

|   | December 31,         |                      |
|---|----------------------|----------------------|
|   | 2017                 | 2016                 |
| <b>CURRENT ASSETS</b>   |                      |                      |
| Cash and Cash Equivalents (December 31, 2017 and 2016 Amounts Include \$0 and \$8.7, Respectively, Related to Sabine)                       | 1,600,000            | 10,300,000           |
| Advances to Affiliates  | 2,000,000            | 169,800,000          |
| Accounts Receivable:  |                      |                      |
| Customers   | 70,900,000           | 48,500,000           |
| Affiliated Companies  | 30,200,000           | 29,300,000           |
| Miscellaneous   | 25,800,000           | 17,500,000           |
| Allowance for Uncollectible Accounts  | (1,300,000)          | (1,200,000)          |
| Total Accounts Receivable   | 125,600,000          | 94,100,000           |
| Fuel (December 31, 2017 and 2016 Amounts Include \$41.5 and \$34.3, Respectively, Related to Sabine)  | 123,600,000          | 107,100,000          |
| Materials and Supplies  | 67,900,000           | 68,400,000           |
| Risk Management Assets  | 6,400,000            | 900,000              |
| Accrued Tax Benefits  | 3,900,000            | 51,500,000           |
| Regulatory Asset for Under-Recovered Fuel Costs   | 14,100,000           | 8,400,000            |
| Prepayments and Other Current Assets  | 35,300,000           | 35,500,000           |
| <b>TOTAL CURRENT ASSETS</b>   | <b>380,400,000</b>   | <b>546,000,000</b>   |
| <b>PROPERTY, PLANT AND EQUIPMENT</b>  |                      |                      |
| Electric:   |                      |                      |
| Generation  | 4,624,900,000        | 4,607,600,000        |
| Transmission  | 1,679,800,000        | 1,584,200,000        |
| Distribution  | 2,095,800,000        | 2,020,600,000        |
| Other Property, Plant and Equipment (December 31, 2017 and 2016 Amounts Include \$266.7 and \$267.5, Respectively, Related to Sabine)       | 684,100,000          | 670,400,000          |
| Construction Work in Progress   | 233,200,000          | 113,800,000          |
| Total Property, Plant and Equipment   | 9,317,800,000        | 8,996,600,000        |
| Accumulated Depreciation and Amortization (December 31, 2017 and 2016 Amounts Include \$165.9 and \$155.6, Respectively, Related to Sabine) | 2,685,800,000        | 2,567,100,000        |
| <b>TOTAL PROPERTY, PLANT AND EQUIPMENT – NET</b>  | <b>6,632,000,000</b> | <b>6,429,500,000</b> |
| <b>OTHER NONCURRENT ASSETS</b>  |                      |                      |
| Regulatory Assets   | 220,600,000          | 551,200,000          |
| Deferred Charges and Other Noncurrent Assets  | 109,900,000          | 99,900,000           |
| <b>TOTAL OTHER NONCURRENT ASSETS</b>  | <b>330,500,000</b>   | <b>651,100,000</b>   |
| <b>TOTAL ASSETS</b>   | <b>7,342,900,000</b> | <b>7,626,600,000</b> |

|  | Years Ended December 31, |                      |                      |
|--|--------------------------|----------------------|----------------------|
|  | 2019                     | 2018                 | 2017                 |
| <b>REVENUES</b>  |                          |                      |                      |
| Electric Generation, Transmission and Distribution                           | 1,744,600,000            | 1,791,900,000        | 1,752,100,000        |
| Sales to AEP Affiliates  | 36,900,000               | 35,100,000           | 25,900,000           |
| Provision for Refund - Affiliated  | (32,000,000)             | (6,700,000)          | -                    |
| Other Revenues   | 1,400,000                | 1,600,000            | 1,900,000            |
| <b>TOTAL REVENUES</b>  | <b>1,750,900,000</b>     | <b>1,821,900,000</b> | <b>1,779,900,000</b> |
| <b>EXPENSES</b>  |                          |                      |                      |
| Fuel and Other Consumables Used for Electric Generation                      | 472,800,000              | 502,300,000          | 496,100,000          |
| Purchased Electricity for Resale   | 179,500,000              | 177,100,000          | 168,700,000          |
| Other Operation  | 348,000,000              | 384,200,000          | 318,300,000          |
| Maintenance  | 145,600,000              | 141,500,000          | 143,500,000          |
| Asset Impairments and Other Related Charges                                  | -                        | -                    | 33,600,000           |
| Depreciation and Amortization  | 249,100,000              | 239,500,000          | 217,400,000          |
| Taxes Other Than Income Taxes  | 100,200,000              | 99,600,000           | 98,300,000           |
| <b>TOTAL EXPENSES</b>  | <b>1,495,200,000</b>     | <b>1,544,200,000</b> | <b>1,475,900,000</b> |
| <b>OPERATING INCOME</b>  | <b>255,700,000</b>       | <b>277,700,000</b>   | <b>304,000,000</b>   |
| Other Income (Expense)   |                          |                      |                      |
| Interest Income  | 2,600,000                | 5,400,000            | 2,700,000            |
| Allowance for Equity Funds Used During Construction                          | 6,800,000                | 6,000,000            | 2,400,000            |
| Non-Service Cost Component of Net Periodic Benefit Cost                      | 8,500,000                | 8,700,000            | 3,700,000            |
| Interest Expense   | (119,100,000)            | (127,900,000)        | (123,400,000)        |
| <b>INCOME BEFORE INCOME TAX EXPENSE (BENEFIT) AND EQUITY EARNINGS (LOSS)</b> | <b>154,500,000</b>       | <b>169,900,000</b>   | <b>189,400,000</b>   |
| Income Tax Expense (Benefit)   | (4,700,000)              | 20,400,000           | 48,100,000           |
| Equity Earnings (Loss) of Unconsolidated Subsidiary                          | 3,000,000                | 2,700,000            | (3,800,000)          |
| <b>NET INCOME</b>  | <b>162,200,000</b>       | <b>152,200,000</b>   | <b>137,500,000</b>   |
| Net Income Attributable to Noncontrolling Interest                           | 3,600,000                | 5,000,000            | 12,800,000           |
| <b>EARNINGS ATTRIBUTABLE TO SWEPCo COMMON SHAREHOLDER</b>                    | <b>158,600,000</b>       | <b>147,200,000</b>   | <b>124,700,000</b>   |



|  | Years Ended December 31, |             |             |
|--|--------------------------|-------------|-------------|
|  | 2019                     | 2018        | 2017        |
| Net Income   | 162,200,000              | 152,200,000 | 137,500,000 |
| OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAXES  |                          |             |             |
| Cash Flow Hedges, Net of Tax of \$0.4, \$1.1 and \$0.8 in 2019, 2018 and 2017, Respectively                                      | 1,500,000                | 4,000,000   | 1,400,000   |
| Amortization of Pension and OPEB Deferred Costs, Net of Tax of \$(0.3), \$(0.4) and \$(0.4) in 2019, 2018 and 2017, Respectively | (1,100,000)              | (1,400,000) | (700,000)   |
| Pension and OPEB Funded Status, Net of Tax of \$1, \$(0.8) and \$2.5 in 2019, 2018 and 2017, Respectively                        | 3,700,000                | (3,100,000) | 4,700,000   |
| TOTAL OTHER COMPREHENSIVE INCOME (LOSS)  | 4,100,000                | (500,000)   | 5,400,000   |
| TOTAL COMPREHENSIVE INCOME   | 166,300,000              | 151,700,000 | 142,900,000 |
| Total Comprehensive Income Attributable to Noncontrolling Interest   | 3,600,000                | 5,000,000   | 12,800,000  |
| TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO SWEPCo COMMON SHAREHOLDER   | 162,700,000              | 146,700,000 | 130,100,000 |

## SWEPCo Common Shareholder

|  | Common Stock | Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Noncontrolling Interest | Total         |
|--|--------------|-----------------|-------------------|---|-------------------------|---------------|
| TOTAL EQUITY - DECEMBER 31, 2016       | 135,700,000  | 676,600,000     | 1,411,900,000     | (9,400,000)                                   | 400,000                 | 2,215,200,000 |
| Common Stock Dividends                 |              |                 | (110,000,000)     |   |                         | (110,000,000) |
| Common Stock Dividends – Nonaffiliated |              |                 |                   |   | (13,600,000)            | (13,600,000)  |
| Net Income                             |              |                 | 124,700,000       |   | 12,800,000              | 137,500,000   |
| Other Comprehensive Income             |              |                 |                   | 5,400,000                                     |                         | 5,400,000     |
| TOTAL EQUITY - DECEMBER 31, 2017       | 135,700,000  | 676,600,000     | 1,426,600,000     | (4,000,000)                                   | (400,000)               | 2,234,500,000 |
| Common Stock Dividends                 |              |                 | (65,000,000)      |   |                         | (65,000,000)  |
| Common Stock Dividends – Nonaffiliated |              |                 |                   |   | (4,300,000)             | (4,300,000)   |
| ASU 2018-02 Adoption                   |              |                 | (400,000)         | (900,000)                                     |                         | (1,300,000)   |
| Net Income                             |              |                 | 147,200,000       |   | 5,000,000               | 152,200,000   |
| Other Comprehensive Loss               |              |                 |                   | (500,000)                                     |                         | (500,000)     |
| TOTAL EQUITY - DECEMBER 31, 2018       | 135,700,000  | 676,600,000     | 1,508,400,000     | (5,400,000)                                   | 300,000                 | 2,315,600,000 |
| Common Stock Dividends                 |              |                 | (37,500,000)      |   |                         | (37,500,000)  |
| Common Stock Dividends – Nonaffiliated |              |                 |                   |   | (3,300,000)             | (3,300,000)   |
| Net Income                             |              |                 | 158,600,000       |   | 3,600,000               | 162,200,000   |
| Other Comprehensive Income             |              |                 |                   | 4,100,000                                     |                         | 4,100,000     |
| TOTAL EQUITY - DECEMBER 31, 2019       | 135,700,000  | 676,600,000     | 1,629,500,000     | (1,300,000)                                   | 600,000                 | 2,441,100,000 |

|   | December 31,         |                      |
|---|----------------------|----------------------|
|   | 2019                 | 2018                 |
| <b>CURRENT ASSETS</b>   |                      |                      |
| Cash and Cash Equivalents (December 31, 2019 and 2018 Amounts Include \$0 and \$22, Respectively, Related to Sabine)                        | 1,600,000            | 24,500,000           |
| Advances to Affiliates  | 2,100,000            | 83,400,000           |
| Accounts Receivable   |                      |                      |
| Customers   | 29,000,000           | 24,500,000           |
| Affiliated Companies  | 34,500,000           | 28,800,000           |
| Miscellaneous   | 13,500,000           | 20,200,000           |
| Allowance for Uncollectible Accounts  | (1,700,000)          | (700,000)            |
| Total Accounts Receivable   | 75,300,000           | 72,800,000           |
| Fuel (December 31, 2019 and 2018 Amounts Include \$47 and \$13 2, Respectively, Related to Sabine)  | 140,100,000          | 98,000,000           |
| Materials and Supplies (December 31, 2019 and 2018 Amounts Include \$23 1 and \$22 5, Respectively, Related to Sabine)                      | 94,000,000           | 90,000,000           |
| Risk Management Assets  | 6,400,000            | 4,800,000            |
| Regulatory Asset for Under-Recovered Fuel Costs   | 4,900,000            | 18,800,000           |
| Prepayments and Other Current Assets  | 29,700,000           | 22,200,000           |
| <b>TOTAL CURRENT ASSETS</b>   | <b>354,100,000</b>   | <b>414,500,000</b>   |
| <b>PROPERTY, PLANT AND EQUIPMENT</b>  |                      |                      |
| Electric  |                      |                      |
| Generation  | 4,691,400,000        | 4,672,600,000        |
| Transmission  | 2,056,500,000        | 1,866,900,000        |
| Distribution  | 2,270,700,000        | 2,178,600,000        |
| Other Property, Plant and Equipment (December 31, 2019 and 2018 Amounts Include \$212 3 and \$276 9, Respectively, Related to Sabine)       | 733,400,000          | 762,700,000          |
| Construction Work in Progress   | 216,900,000          | 199,300,000          |
| Total Property, Plant and Equipment   | 9,968,900,000        | 9,680,100,000        |
| Accumulated Depreciation and Amortization (December 31, 2019 and 2018 Amounts Include \$107.5 and \$174.6, Respectively, Related to Sabine) | 2,873,700,000        | 2,808,300,000        |
| <b>TOTAL PROPERTY, PLANT AND EQUIPMENT – NET</b>  | <b>7,095,200,000</b> | <b>6,871,800,000</b> |
| <b>OTHER NONCURRENT ASSETS</b>  |                      |                      |
| Regulatory Assets   | 222,400,000          | 230,800,000          |
| Deferred Charges and Other Noncurrent Assets  | 160,500,000          | 111,200,000          |
| <b>TOTAL OTHER NONCURRENT ASSETS</b>  | <b>382,900,000</b>   | <b>342,000,000</b>   |
| <b>TOTAL ASSETS</b>   | <b>7,832,200,000</b> | <b>7,628,300,000</b> |

|  | December 31,         |                      |
|--|----------------------|----------------------|
|  | 2019                 | 2018                 |
| <b>CURRENT LIABILITIES</b>                                 |                      |                      |
| Advances from Affiliates                                   | 59,900,000           | -                    |
| Accounts Payable   |                      |                      |
| General  | 138,000,000          | 129,100,000          |
| Affiliated Companies                                       | 53,600,000           | 64,200,000           |
| Short-term Debt – Nonaffiliated                            | 18,300,000           | -                    |
| Long-term Debt Due Within One Year – Nonaffiliated         | 121,200,000          | 59,700,000           |
| Risk Management Liabilities                                | 1,900,000            | 400,000              |
| Customer Deposits  | 65,000,000           | 64,500,000           |
| Accrued Taxes  | 41,800,000           | 42,800,000           |
| Accrued Interest   | 34,600,000           | 34,700,000           |
| Obligations Under Operating Leases                         | 6,500,000            | -                    |
| Other Current Liabilities                                  | 133,900,000          | 117,500,000          |
| <b>TOTAL CURRENT LIABILITIES</b>                           | <b>674,700,000</b>   | <b>512,900,000</b>   |
| <b>NONCURRENT LIABILITIES</b>                              |                      |                      |
| Long-term Debt – Nonaffiliated                             | 2,534,400,000        | 2,653,700,000        |
| Long-term Risk Management Liabilities                      | 3,100,000            | 2,200,000            |
| Deferred Income Taxes                                      | 940,900,000          | 902,800,000          |
| Regulatory Liabilities and Deferred Investment Tax Credits | 892,300,000          | 923,000,000          |
| Asset Retirement Obligations                               | 196,700,000          | 191,300,000          |
| Employee Benefits and Pension Obligations                  | 28,100,000           | 24,800,000           |
| Obligations Under Operating Leases                         | 34,700,000           | -                    |
| Deferred Credits and Other Noncurrent Liabilities          | 86,200,000           | 102,000,000          |
| <b>TOTAL NONCURRENT LIABILITIES</b>                        | <b>4,716,400,000</b> | <b>4,799,800,000</b> |
| <b>TOTAL LIABILITIES</b>                                   | <b>5,391,100,000</b> | <b>5,312,700,000</b> |
| Rate Matters (Notes 4)                                     |                      |                      |
| Commitments and Contingencies (Note 6)                     |                      |                      |
| <b>EQUITY</b>  |                      |                      |
| Common Stock – Par Value – \$18 Per Share                  |                      |                      |
| Authorized - 7,600,000 Shares                              |                      |                      |
| Outstanding – 7,536,640 Shares                             | 135,700,000          | 135,700,000          |
| Paid-in Capital  | 676,600,000          | 676,600,000          |
| Retained Earnings  | 1,629,500,000        | 1,508,400,000        |
| Accumulated Other Comprehensive Income (Loss)              | (1,300,000)          | (5,400,000)          |
| <b>TOTAL COMMON SHAREHOLDER'S EQUITY</b>                   | <b>2,440,500,000</b> | <b>2,315,300,000</b> |
| Noncontrolling Interest                                    | 600,000              | 300,000              |
| <b>TOTAL EQUITY</b>  | <b>2,441,100,000</b> | <b>2,315,600,000</b> |
| <b>TOTAL LIABILITIES AND EQUITY</b>                        | <b>7,832,200,000</b> | <b>7,628,300,000</b> |

|  | Years Ended December 31, |               |               |
|--|--------------------------|---------------|---------------|
|  | 2019                     | 2018          | 2017          |
| <b>OPERATING ACTIVITIES</b>  |                          |               |               |
| Net Income   | 162,200,000              | 152,200,000   | 137,500,000   |
| Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities: |                          |               |               |
| Depreciation and Amortization  | 249,100,000              | 239,500,000   | 217,400,000   |
| Deferred Income Taxes  | (11,000,000)             | 1,200,000     | 80,500,000    |
| Asset Impairments and Other Related Charges                                      | -                        | -             | 33,600,000    |
| Allowance for Equity Funds Used During Construction                              | (6,800,000)              | (6,000,000)   | (2,400,000)   |
| Mark-to-Market of Risk Management Contracts                                      | 800,000                  | 4,000,000     | (5,600,000)   |
| Pension Contributions to Qualified Plan Trust                                    | -                        | -             | (8,900,000)   |
| Deferred Fuel Over/Under-Recovery, Net   | 16,500,000               | (2,400,000)   | (800,000)     |
| Change in Other Noncurrent Assets  | 6,200,000                | (18,800,000)  | (9,200,000)   |
| Change in Other Noncurrent Liabilities   | 2,700,000                | 42,800,000    | 4,700,000     |
| Changes in Certain Components of Working Capital                                 |                          |               |               |
| Accounts Receivable, Net   | -                        | 53,500,000    | (32,900,000)  |
| Fuel, Materials and Supplies   | (46,100,000)             | 3,500,000     | (16,000,000)  |
| Accounts Payable   | (28,400,000)             | 900,000       | 10,500,000    |
| Accrued Taxes, Net   | (3,200,000)              | 2,300,000     | 45,700,000    |
| Other Current Assets   | (8,900,000)              | 15,600,000    | 5,200,000     |
| Other Current Liabilities  | 6,700,000                | 16,500,000    | (14,600,000)  |
| Net Cash Flows from Operating Activities   | 339,800,000              | 504,800,000   | 444,700,000   |
| <b>INVESTING ACTIVITIES</b>  |                          |               |               |
| Construction Expenditures  | (412,700,000)            | (451,000,000) | (404,100,000) |
| Change in Advances to Affiliates, Net  | 81,300,000               | (81,400,000)  | 167,800,000   |
| Proceeds from Sales of Assets  | 200,000                  | 1,400,000     | 12,600,000    |
| Other Investing Activities   | 1,000,000                | 2,100,000     | 3,100,000     |
| Net Cash Flows Used for Investing Activities                                     | (330,200,000)            | (528,900,000) | (220,600,000) |
| <b>FINANCING ACTIVITIES</b>  |                          |               |               |
| Issuance of Long-term Debt – Nonaffiliated                                       | -                        | 1,065,700,000 | 114,600,000   |
| Change in Short-term Debt – Nonaffiliated  | 18,300,000               | (22,000,000)  | 22,000,000    |
| Change in Advances from Affiliates, Net  | 59,900,000               | (118,700,000) | 118,700,000   |
| Retirement of Long-term Debt – Nonaffiliated                                     | (59,700,000)             | (794,500,000) | (353,700,000) |
| Principal Payments for Finance Lease Obligations                                 | (11,000,000)             | (11,500,000)  | (11,300,000)  |
| Dividends Paid on Common Stock   | (37,500,000)             | (65,000,000)  | (110,000,000) |
| Dividends Paid on Common Stock – Nonaffiliated                                   | (3,300,000)              | (4,300,000)   | (13,600,000)  |
| Other Financing Activities   | 800,000                  | (2,700,000)   | 500,000       |
| Net Cash Flows from (Used for) Financing Activities                              | (32,500,000)             | 47,000,000    | (232,800,000) |
| Net Increase (Decrease) in Cash and Cash Equivalents                             | (22,900,000)             | 22,900,000    | (8,700,000)   |
| Cash and Cash Equivalents at Beginning of Period                                 | 24,500,000               | 1,600,000     | 10,300,000    |
| Cash and Cash Equivalents at End of Period                                       | 1,600,000                | 24,500,000    | 1,600,000     |
| <b>SUPPLEMENTARY INFORMATION</b>   |                          |               |               |
| Cash Paid for Interest, Net of Capitalized Amounts                               | 111,100,000              | 125,700,000   | 124,400,000   |
| Net Cash Paid (Received) for Income Taxes  | 8,600,000                | 18,800,000    | (75,300,000)  |
| Noncash Acquisitions Under Finance Leases  | 7,400,000                | 3,600,000     | 3,300,000     |
| Construction Expenditures Included in Current Liabilities as of December 31,     | 69,100,000               | 42,000,000    | 71,200,000    |

## OPERATING ACTIVITIES

|  |              |              |
|--|--------------|--------------|
| Net Income   | 163,900,000  | 147,600,000  |
| Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities. |              |              |
| Depreciation and Amortization  | 203,900,000  | 187,100,000  |
| Deferred Income Taxes  | (300,000)    | (15,900,000) |
| Allowance for Equity Funds Used During Construction                              | (5,700,000)  | (4,500,000)  |
| Mark-to-Market of Risk Management Contracts                                      | (2,300,000)  | (2,500,000)  |
| Pension Contributions to Qualified Plan Trust                                    | (8,900,000)  | -            |
| Property Taxes   | (16,500,000) | (16,100,000) |
| Deferred Fuel Over/Under-Recovery, Net   | 16,300,000   | 14,100,000   |
| Change in Regulatory Assets  | (64,500,000) | 5,700,000    |
| Change in Other Noncurrent Assets  | 3,200,000    | (2,200,000)  |
| Change in Other Noncurrent Liabilities   | 21,000,000   | 5,800,000    |
| Changes in Certain Components of Working Capital.                                |              |              |
| Accounts Receivable, Net   | 8,000,000    | (17,200,000) |
| Fuel, Materials and Supplies   | (70,900,000) | (17,700,000) |
| Accounts Payable   | 88,000,000   | (12,800,000) |
| Accrued Taxes, Net   | 46,600,000   | 54,100,000   |
| Other Current Assets   | 1,300,000    | (4,500,000)  |
| Other Current Liabilities  | (50,300,000) | (13,900,000) |
| Net Cash Flows from Operating Activities   | 332,800,000  | 307,100,000  |

## INVESTING ACTIVITIES

|  |               |               |
|--|---------------|---------------|
| Construction Expenditures                    | (319,500,000) | (277,300,000) |
| Change in Advances to Affiliates, Net        | -             | 74,900,000    |
| Other Investing Activities                   | 4,800,000     | (1,200,000)   |
| Net Cash Flows Used for Investing Activities | (314,700,000) | (203,600,000) |

## FINANCING ACTIVITIES

|   |              |               |
|---|--------------|---------------|
| Change in Short-term Debt – Nonaffiliated           | 23,700,000   | -             |
| Change in Advances from Affiliates, Net             | 11,900,000   | -             |
| Retirement of Long-term Debt – Nonaffiliated        | (19,700,000) | (58,200,000)  |
| Principal Payments for Finance Lease Obligations    | (8,000,000)  | (8,100,000)   |
| Dividends Paid on Common Stock                      | -            | (37,500,000)  |
| Dividends Paid on Common Stock – Nonaffiliated      | (2,300,000)  | (3,300,000)   |
| Other Financing Activities                          | 300,000      | 500,000       |
| Net Cash Flows from (Used for) Financing Activities | 5,900,000    | (106,600,000) |

|  |            |             |
|--|------------|-------------|
| Net Increase (Decrease) in Cash and Cash Equivalents | 24,000,000 | (3,100,000) |
| Cash and Cash Equivalents at Beginning of Period     | 1,600,000  | 24,500,000  |
| Cash and Cash Equivalents at End of Period           | 25,600,000 | 21,400,000  |

## SUPPLEMENTARY INFORMATION

|   |            |            |
|---|------------|------------|
| Cash Paid for Interest, Net of Capitalized Amounts                            | 95,200,000 | 95,100,000 |
| Net Cash Paid for Income Taxes  | 11,900,000 | 7,300,000  |
| Noncash Acquisitions Under Finance Leases                                     | 5,900,000  | 4,700,000  |
| Construction Expenditures Included in Current Liabilities as of September 30, | 50,600,000 | 52,000,000 |

|   | Three Months Ended<br>September 30, |                       | Nine Months Ended<br>September 30, |                         |
|---|-------------------------------------|-----------------------|------------------------------------|-------------------------|
|   | 2020                                | 2019                  | 2020                               | 2019                    |
| <b>REVENUES</b>   |                                     |                       |                                    |                         |
| Electric Generation, Transmission and Distribution                    | 505,700,000 00                      | 536,500,000 00        | 1,284,300,000 00                   | 1,344,800,000 00        |
| Sales to AEP Affiliates   | 8,500,000 00                        | 8,800,000 00          | 33,500,000 00                      | 21,600,000 00           |
| Provision for Refund – Affiliated                                     | 2,400,000 00                        | (100,000 00)          | (2,000,000 00)                     | (25,300,000 00)         |
| Other Revenues  | 700,000 00                          | 300,000 00            | 2,400,000 00                       | 1,000,000 00            |
| <b>TOTAL REVENUES</b>   | <b>517,300,000 00</b>               | <b>545,500,000 00</b> | <b>1,318,200,000 00</b>            | <b>1,342,100,000 00</b> |
| <b>EXPENSES</b>   |                                     |                       |                                    |                         |
| Fuel and Other Consumables Used for Electric Generation               | 131,700,000 00                      | 148,800,000 00        | 306,400,000 00                     | 400,200,000 00          |
| Purchased Electricity for Resale                                      | 41,000,000 00                       | 44,800,000 00         | 125,100,000 00                     | 110,500,000 00          |
| Other Operation   | 96,800,000 00                       | 91,900,000 00         | 259,000,000 00                     | 242,400,000 00          |
| Maintenance   | 30,700,000 00                       | 35,900,000 00         | 97,200,000 00                      | 104,100,000 00          |
| Depreciation and Amortization   | 68,500,000 00                       | 63,200,000 00         | 203,900,000 00                     | 187,100,000 00          |
| Taxes Other Than Income Taxes   | 26,700,000 00                       | 26,200,000 00         | 77,000,000 00                      | 76,000,000 00           |
| <b>TOTAL EXPENSES</b>   | <b>395,400,000 00</b>               | <b>410,800,000 00</b> | <b>1,068,600,000 00</b>            | <b>1,120,300,000 00</b> |
| <b>OPERATING INCOME</b>   | <b>121,900,000 00</b>               | <b>134,700,000 00</b> | <b>249,600,000 00</b>              | <b>221,800,000 00</b>   |
| <b>Other Income (Expense)</b>   |                                     |                       |                                    |                         |
| Interest Income   | 600,000 00                          | 600,000 00            | 1,700,000 00                       | 2,000,000 00            |
| Allowance for Equity Funds Used During Construction                   | 3,400,000 00                        | 1,600,000 00          | 5,700,000 00                       | 4,500,000 00            |
| Non-Service Cost Components of Net Periodic Benefit Cost              | 2,100,000 00                        | 2,100,000 00          | 6,300,000 00                       | 6,400,000 00            |
| Interest Expense  | (29,300,000 00)                     | (29,200,000 00)       | (89,100,000 00)                    | (89,400,000 00)         |
| <b>INCOME BEFORE INCOME TAX EXPENSE (BENEFIT) AND EQUITY EARNINGS</b> | <b>98,700,000 00</b>                | <b>109,800,000 00</b> | <b>174,200,000 00</b>              | <b>145,300,000 00</b>   |
| Income Tax Expense (Benefit)  | 10,800,000 00                       | (700,000 00)          | 12,500,000 00                      | -                       |
| Equity Earnings of Unconsolidated Subsidiary                          | 700,000 00                          | 800,000 00            | 2,200,000 00                       | 2,300,000 00            |
| <b>NET INCOME</b>   | <b>88,600,000 00</b>                | <b>111,300,000 00</b> | <b>163,900,000 00</b>              | <b>147,600,000 00</b>   |
| Net Income Attributable to Noncontrolling Interest                    | 700,000 00                          | 800,000 00            | 2,100,000 00                       | 3,100,000 00            |
| <b>EARNINGS ATTRIBUTABLE TO SWEPCo COMMON SHAREHOLDER</b>             | <b>87,900,000 00</b>                | <b>110,500,000 00</b> | <b>161,800,000 00</b>              | <b>144,500,000 00</b>   |

|  | Three Months Ended<br>September 30, |             | Nine Months Ended<br>September 30, |             |
|--|-------------------------------------|-------------|------------------------------------|-------------|
|  | 2020                                | 2019        | 2020                               | 2019        |
| Net Income   | 88,600,000                          | 111,300,000 | 163,900,000                        | 147,600,000 |
| OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAXES  |                                     |             |                                    |             |
| Cash Flow Hedges, Net of Tax of \$0.1 and \$0.1 for the Three Months Ended September 30, 2020 and 2019, Respectively, and \$0.3 and \$0.3 for the Nine Months Ended September 30, 2020 and 2019, Respectively                                    | 400,000                             | 300,000     | 1,100,000                          | 1,100,000   |
| Amortization of Pension and OPEB Deferred Costs, Net of Tax of \$(0.1) and \$0 for the Three Months Ended September 30, 2020 and 2019, Respectively, and \$(0.3) and \$(0.2) for the Nine Months Ended September 30, 2020 and 2019, Respectively | (400,000)                           | (300,000)   | (1,100,000)                        | (900,000)   |
| TOTAL OTHER COMPREHENSIVE INCOME   | -                                   | -           | -                                  | 200,000     |
| TOTAL COMPREHENSIVE INCOME   | 88,600,000                          | 111,300,000 | 163,900,000                        | 147,800,000 |
| Total Comprehensive Income Attributable to Noncontrolling Interest   | 700,000                             | 800,000     | 2,100,000                          | 3,100,000   |
| TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO SWEPCo COMMON SHAREHOLDER   | 87,900,000                          | 110,500,000 | 161,800,000                        | 144,700,000 |



## SWEPCo Common Shareholder

|  | Common Stock  | Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Noncontrolling Interest | Total         |
|--|---------------|-----------------|-------------------|---|-------------------------|---------------|
| TOTAL EQUITY - DECEMBER 31, 2018       | 135,700,000   | 676,600,000     | 1,508,400,000     | (5,400,000)                                   | 300,000                 | 2,315,600,000 |
| Common Stock Dividends                 |               |                 | (18,700,000)      |   |                         | (18,700,000)  |
| Common Stock Dividends – Nonaffiliated |               |                 |                   |   | (1,100,000)             | (1,100,000)   |
| Net Income                             |               |                 | 27,800,000        |   | 1,200,000               | 29,000,000    |
| Other Comprehensive Income             |               |                 |                   | 100,000                                       |                         | 100,000       |
| TOTAL EQUITY - MARCH 31, 2019          | 135,700,000   | 676,600,000     | 1,517,500,000     | (5,300,000)                                   | 400,000                 | 2,324,900,000 |
| Common Stock Dividends                 |               |                 | (18,800,000)      |   |                         | (18,800,000)  |
| Common Stock Dividends – Nonaffiliated |               |                 |                   |   | (1,100,000)             | (1,100,000)   |
| Net Income                             |               |                 | 6,200,000         |   | 1,100,000               | 7,300,000     |
| Other Comprehensive Income             |               |                 |                   | 100,000                                       |                         | 100,000       |
| TOTAL EQUITY - JUNE 30, 2019           | 135,700,000   | 676,600,000     | 1,504,900,000     | (5,200,000)                                   | 400,000                 | 2,312,400,000 |
| Common Stock Dividends – Nonaffiliated |               |                 |                   |   | (1,100,000)             | (1,100,000)   |
| Net Income                             |               |                 | 110,500,000       |   | 800,000                 | 111,300,000   |
| TOTAL EQUITY - SEPTEMBER 30, 2019      | 135,700,000   | 676,600,000     | 1,615,400,000     | (5,200,000)                                   | 100,000                 | 2,422,600,000 |
| TOTAL EQUITY - DECEMBER 31, 2019       | 135,700,000   | 676,600,000     | 1,629,500,000     | (1,300,000)                                   | 600,000                 | 2,441,100,000 |
| Common Stock Dividends – Nonaffiliated |               |                 |                   |   | (700,000)               | (700,000)     |
| ASU 2016-13 Adoption                   |               |                 | 1,600,000         |   |                         | 1,600,000     |
| Net Income                             |               |                 | 15,100,000        |   | 1,000,000               | 16,100,000    |
| TOTAL EQUITY - MARCH 31, 2020          | 135,700,000   | 676,600,000     | 1,646,200,000     | (1,300,000)                                   | 900,000                 | 2,458,100,000 |
| Common Stock Dividends – Nonaffiliated |               |                 |                   |   | (1,200,000)             | (1,200,000)   |
| Net Income                             |               |                 | 58,800,000        |   | 400,000                 | 59,200,000    |
| TOTAL EQUITY - JUNE 30, 2020           | 135,700,000   | 676,600,000     | 1,705,000,000     | (1,300,000)                                   | 100,000                 | 2,516,100,000 |
| Reverse Common Stock Split (a)         | (135,600,000) | 135,600,000     |                   |   |                         | -             |
| Common Stock Dividends – Nonaffiliated |               |                 |                   |   | (400,000)               | (400,000)     |
| Net Income                             |               |                 | 87,900,000        |   | 700,000                 | 88,600,000    |
| TOTAL EQUITY - SEPTEMBER 30, 2020      | 100,000       | 812,200,000     | 1,792,900,000     | (1,300,000)                                   | 400,000                 | 2,604,300,000 |

## CURRENT ASSETS

|  |             |             |
|--|-------------|-------------|
| Cash and Cash Equivalents  | 25,600,000  | 1,600,000   |
| Advances to Affiliates   | 2,100,000   | 2,100,000   |
| Accounts Receivable:   |             |             |
| Customers  | 12,700,000  | 29,000,000  |
| Affiliated Companies   | 28,300,000  | 34,500,000  |
| Miscellaneous  | 24,400,000  | 13,500,000  |
| Allowance for Uncollectible Accounts   | -           | (1,700,000) |
| Total Accounts Receivable  | 65,400,000  | 75,300,000  |
| Fuel (September 30, 2020 and December 31, 2019 Amounts Include \$48.7 and \$47, Respectively, Related to Sabine)                   | 210,500,000 | 140,100,000 |
| Materials and Supplies (September 30, 2020 and December 31, 2019 Amounts Include \$24 and \$23.1, Respectively, Related to Sabine) | 99,200,000  | 94,000,000  |
| Risk Management Assets   | 4,500,000   | 6,400,000   |
| Regulatory Asset for Under-Recovered Fuel Costs  | 7,000,000   | 4,900,000   |
| Prepayments and Other Current Assets   | 29,700,000  | 29,700,000  |
| TOTAL CURRENT ASSETS   | 444,000,000 | 354,100,000 |

## PROPERTY, PLANT AND EQUIPMENT

|   |                |               |
|---|----------------|---------------|
| Electric:   |                |               |
| Generation  | 4,674,700,000  | 4,691,400,000 |
| Transmission  | 2,109,600,000  | 2,056,500,000 |
| Distribution  | 2,356,600,000  | 2,270,700,000 |
| Other Property, Plant and Equipment (September 30, 2020 and December 31, 2019 Amounts Include \$216.8 and \$212.3, Respectively, Related to Sabine)       | 792,500,000    | 733,400,000   |
| Construction Work in Progress   | 272,300,000    | 216,900,000   |
| Total Property, Plant and Equipment   | 10,205,700,000 | 9,968,900,000 |
| Accumulated Depreciation and Amortization (September 30, 2020 and December 31, 2019 Amounts Include \$117.4 and \$107.5, Respectively, Related to Sabine) | 3,092,600,000  | 2,873,700,000 |
| TOTAL PROPERTY, PLANT AND EQUIPMENT – NET   | 7,113,100,000  | 7,095,200,000 |

## OTHER NONCURRENT ASSETS

|  |             |             |
|--|-------------|-------------|
| Regulatory Assets                            | 334,800,000 | 222,400,000 |
| Deferred Charges and Other Noncurrent Assets | 245,400,000 | 160,500,000 |
| TOTAL OTHER NONCURRENT ASSETS                | 580,200,000 | 382,900,000 |

|              |               |               |
|--------------|---------------|---------------|
| TOTAL ASSETS | 8,137,300,000 | 7,832,200,000 |
|--------------|---------------|---------------|

## CURRENT LIABILITIES

|  |             |             |
|--|-------------|-------------|
| Advances from Affiliates                           | 71,800,000  | 59,900,000  |
| Accounts Payable:                                  |             |             |
| General  | 183,300,000 | 138,000,000 |
| Affiliated Companies                               | 80,500,000  | 53,600,000  |
| Short-term Debt – Nonaffiliated                    | 42,000,000  | 18,300,000  |
| Long-term Debt Due Within One Year – Nonaffiliated | 6,200,000   | 121,200,000 |
| Risk Management Liabilities                        | 100,000     | 1,900,000   |
| Customer Deposits                                  | 63,700,000  | 65,000,000  |
| Accrued Taxes                                      | 90,100,000  | 41,800,000  |
| Accrued Interest                                   | 23,000,000  | 34,600,000  |
| Obligations Under Operating Leases                 | 8,100,000   | 6,500,000   |
| Regulatory Liability for Over-Recovered Fuel Costs | 32,000,000  | 13,600,000  |
| Other Current Liabilities                          | 98,700,000  | 120,300,000 |
| TOTAL CURRENT LIABILITIES                          | 699,500,000 | 674,700,000 |

## NONCURRENT LIABILITIES

|  |               |               |
|--|---------------|---------------|
| Long-term Debt – Nonaffiliated                             | 2,631,100,000 | 2,534,400,000 |
| Long-term Risk Management Liabilities                      | 700,000       | 3,100,000     |
| Deferred Income Taxes                                      | 965,000,000   | 940,900,000   |
| Regulatory Liabilities and Deferred Investment Tax Credits | 877,500,000   | 892,300,000   |
| Asset Retirement Obligations                               | 202,400,000   | 196,700,000   |
| Obligations Under Operating Leases                         | 43,800,000    | 34,700,000    |
| Deferred Credits and Other Noncurrent Liabilities          | 113,000,000   | 114,300,000   |
| TOTAL NONCURRENT LIABILITIES                               | 4,833,500,000 | 4,716,400,000 |

|                   |               |               |
|-------------------|---------------|---------------|
| TOTAL LIABILITIES | 5,533,000,000 | 5,391,100,000 |
|-------------------|---------------|---------------|

Rate Matters (Note 4)

Commitments and Contingencies (Note 5)

## EQUITY

Common Stock – Par Value – \$18 Per Share:

Authorized – 3,680 Shares

|   |               |               |
|---|---------------|---------------|
| Outstanding – 3,680 Shares                    | 100,000       | 135,700,000   |
| Paid-in Capital                               | 812,200,000   | 676,600,000   |
| Retained Earnings                             | 1,792,900,000 | 1,629,500,000 |
| Accumulated Other Comprehensive Income (Loss) | (1,300,000)   | (1,300,000)   |
| TOTAL COMMON SHAREHOLDER'S EQUITY             | 2,603,900,000 | 2,440,500,000 |

|                         |         |         |
|-------------------------|---------|---------|
| Noncontrolling Interest | 400,000 | 600,000 |
|-------------------------|---------|---------|

|              |               |               |
|--------------|---------------|---------------|
| TOTAL EQUITY | 2,604,300,000 | 2,441,100,000 |
|--------------|---------------|---------------|

|                              |               |               |
|------------------------------|---------------|---------------|
| TOTAL LIABILITIES AND EQUITY | 8,137,300,000 | 7,832,200,000 |
|------------------------------|---------------|---------------|

**SOAH DOCKET NO. 473-21-0538  
PUC DOCKET NO. 51415**

**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO  
CITIES ADVOCATING REASONABLE DEREGULATION'S  
THIRD SET OF REQUESTS FOR INFORMATION**

**Question No. CARD 3-14:**

Please provide a copy of Mr. D'Ascendis' testimony in Word.

**Response No. CARD 3-14:**

See CARD 3-14 Attachment A.

Prepared By: Dylan D'Ascendis

Title: Director, ScottMadden, Inc.

Sponsored By: Dylan D'Ascendis

Title: Director, ScottMadden, Inc.

### **EXECUTIVE SUMMARY OF DYLAN W. D'ASCENDIS**

Mr. D'Ascendis' Direct Testimony establishes that a Return on Equity (referred to as the "ROE" or the "Cost of Equity") rate in the range of 10.32% to 11.43% is necessary for Southwestern Electric Power Company ("SWEPCO" or the "Company") to provide a reasonable return to its equity investors. His recommended range considers a variety of factors that affect the required return to equity investors including:

- The multiple analytical approaches that were evaluated to develop his recommended range; and
- How the Cost of Equity is affected by the Company's relative small size and its lower credit rating.

Mr. D'Ascendis' Direct Testimony presents multiple analytical techniques for the purposes of estimating the Company's ROE. To develop his recommendation, he estimated the ROE using the Constant Growth Discounted Cash Flow ("DCF") model, the Risk Premium Model ("RPM"), and the Capital Asset Pricing Model ("CAPM"), and applied those methodologies to a proxy group of electric utilities ("Utility Proxy Group"), as well as to a proxy group of non-price regulated companies similar in total risk to the Utility Proxy Group ("Non-Price Regulated Proxy Group").

Together with the Schedules attached to Mr. D'Ascendis' Direct Testimony, this evidence demonstrates that a Cost of Equity rate in the range of 10.32% to 11.43% is reasonable, and should be adopted for SWEPCO in order to provide the Company with an opportunity to generate earnings that maintain a reasonable return to its equity investors.

**PUBLIC UTILITY COMMISSION OF TEXAS**

**APPLICATION OF**

**SOUTHWESTERN ELECTRIC POWER COMPANY**

**FOR AUTHORITY TO CHANGE RATES**

**DIRECT TESTIMONY**

**OF**

**DYLAN W. D'ASCENDIS, CRRA, CVA**

**FOR**

**SOUTHWESTERN ELECTRIC POWER COMPANY**

**OCTOBER 2020**

## **TABLE OF CONTENTS**

|       |   |    |
|-------|---|----|
| I.    | INTRODUCTION AND PURPOSE .....  | 1  |
| II.   | SUMMARY .....   | 3  |
| III.  | CAPITAL MARKET CONDITIONS.....  | 7  |
| IV.   | GENERAL PRINCIPLES.....   | 13 |
|       | A. Business Risk .....  | 13 |
|       | B. Financial Risk.....  | 15 |
| V.    | SWEPCO AND THE UTILITY PROXY GROUP .....  | 18 |
| VI.   | CAPITAL STRUCTURE .....   | 21 |
| VII.  | COMMON EQUITY COST RATE MODELS .....  | 26 |
|       | A. Discounted Cash Flow Model .....   | 26 |
|       | B. The Risk Premium Model .....   | 28 |
|       | C. The Capital Asset Pricing Model .....  | 41 |
|       | D. Common Equity Cost Rates for a Proxy Group of Domestic, Non-<br>Price Regulated Companies Based on the DCF, RPM, and CAPM..... | 48 |
| VIII. | CONCLUSION OF COMMON EQUITY COST RATE BEFORE<br>ADJUSTMENTS .....   | 52 |
| IX.   | ADJUSTMENTS TO THE COMMON EQUITY COST RATE .....  | 53 |
|       | A. Size Adjustment .....  | 53 |
|       | B. Credit Risk Adjustment .....   | 57 |
|       | C. Flotation Costs.....   | 57 |
| X.    | CONCLUSION.....   | 59 |

## **LIST OF SCHEDULES**

|                 |  |
|-----------------|--|
| Schedule DWD-1: | Summary of Overall Cost of Capital and Return on Equity  |
| Schedule DWD-2: | Financial Profile of Southwestern Electric Power Company<br>and the Utility Proxy Group                                    |
| Schedule DWD-3: | Application of the Discounted Cash Flow Model  |
| Schedule DWD-4: | Application of the Risk Premium Model  |
| Schedule DWD-5: | Application of the Capital Asset Pricing Model   |
| Schedule DWD-6: | Basis of Selection for the Non-Price Regulated Companies<br>Comparable in Total Risk to the Utility Proxy Group            |
| Schedule DWD-7: | Application of Cost of Common Equity Models to the Non-<br>Price Regulated Proxy Group                                     |
| Schedule DWD-8: | Derivation of the Indicated Size Premium for Southwestern<br>Electric Power Company Relative to the Utility Proxy<br>Group |

**I. INTRODUCTION AND PU**

2 Q. PLEASE STATE YOUR NAME, AFFILIATION, AND BUSINESS ADDRESS.

3 A. My name is Dylan W. D'Ascendis. I am employed by ScottMadden, Inc. as Director.

4 My business address is 3000 Atrium Way, Suite 241, Mount Laurel, NJ 08054.

5 Q. ON WHOSE BEHALF ARE YOU SUBMITTING THIS TESTIMONY?

6 A. I am submitting this direct testimony (referred to throughout as my "Direct  
7 Testimony") before the Public Utility Commission of Texas ("Commission") on  
8 behalf of Southwestern Electric Power Company ("SWEPCO" or the "Company").

9 Q. PLEASE SUMMARIZE YOUR PROFESSIONAL EXPERIENCE AND  
10 EDUCATIONAL BACKGROUND.

11 A. I have offered expert testimony on behalf of investor-owned utilities in over 20 state  
12 regulatory commissions in the United States, the Federal Energy Regulatory  
13 Commission, the Alberta Utility Commission, and one American Arbitration  
14 Association panel on issues including, but not limited to, common equity cost rate,  
15 rate of return, valuation, capital structure, class cost of service, and rate design.

16 On behalf of the American Gas Association ("AGA"), I calculate the AGA  
17 Gas Index, which serves as the benchmark against which the performance of the  
18 American Gas Index Fund ("AGIF") is measured on a monthly basis. The AGA Gas  
19 Index and AGIF are a market capitalization weighted index and mutual fund,  
20 respectively, comprised of the common stocks of the publicly traded corporate  
21 members of the AGA.



1 I am a member of the Society of Utility and  
2 ("SURFA"). In 2011, I was awarded the professional designation "Certified Rate of  
3 Return Analyst" by SURFA, which is based on education, experience, and the  
4 successful completion of a comprehensive written examination.

5 I am also a member of the National Association of Certified Valuation  
6 Analysts ("NACVA") and was awarded the professional designation "Certified  
7 Valuation Analyst" by the NACVA in 2015.

8 I am a graduate of the University of Pennsylvania, where I received a  
9 Bachelor of Arts degree in Economic History. I have also received a Master of  
10 Business Administration with high honors and concentrations in Finance and  
11 International Business from Rutgers University.

12 The details of my educational background and expert witness appearances are  
13 shown in Appendix A.

14 Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

15 A. The purpose of my testimony is to present evidence on behalf of SWEPCO and  
16 recommend an ROE for its Texas jurisdictional rate base, and to assess the  
17 Company's actual capital structure ratios.

18 Q. HAVE YOU PREPARED SCHEDULES IN SUPPORT OF YOUR  
19 RECOMMENDATION?

20 A. Yes. I have prepared Schedules DWD-1 through DWD-8, which were prepared by  
21 me or under my direction.

## II. SUMMARY

Q. WHAT IS YOUR RECOMMENDED ROE FOR SWEPCO?

A. I recommend that the Commission authorize SWEPCO the opportunity to earn an ROE of 10.35% on its jurisdictional rate base within a reasonable range of 10.32% to 11.43%. The ratemaking capital structure and cost of long-term debt is sponsored by Company Witness Hawkins. The overall rate of return is summarized on page 1 of Schedule DWD-1 and in Table 1 below:

**Table 1: Summary of Recommended Weighted Average Cost of Capital**

| Type of Capital | Ratios         | Cost Rate | Weighted Cost Rate |
|-----------------|----------------|-----------|--------------------|
| Long-Term Debt  | 50.63%         | 4.18%     | 2.11%              |
| Common Equity   | <u>49.37%</u>  | 10.35%    | <u>5.11%</u>       |
| Total           | <u>100.00%</u> |           | <u>7.22%</u>       |

Q. PLEASE SUMMARIZE YOUR RECOMMENDED ROE.

A. My recommended ROE of 10.35% is summarized on page 2 of Schedule DWD-1. I have assessed the market-based common equity cost rates of companies of relatively similar, but not necessarily identical, risk to SWEPCO. Using companies of relatively comparable risk as proxies is consistent with the principles of fair rate of return established in the *Hope*<sup>1</sup> and *Bluefield*<sup>2</sup> decisions. No proxy group can be identical in risk to any single company. Consequently, there must be an evaluation of relative risk between the company and the proxy group to determine if it is appropriate to adjust the proxy group's indicated rate of return.

<sup>1</sup> *Federal Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591 (1944) ("Hope").

<sup>2</sup> *Bluefield Water Works Improvement Co. v. Public Serv. Comm'n*, 262 U.S. 679 (1922) ("Bluefield").

My recommendation results from applying s  
models, specifically the DCF model, the RPM, and the CAPM, to the market data of  
the Utility Proxy Group whose selection criteria will be discussed below. In addition,  
I applied the DCF model, RPM, and CAPM to the Non-Price Regulated Proxy  
Group. The results derived from each are as follows:

**Table 2: Summary of Common Equity Cost Rates**

|   |                        |
|---|------------------------|
| Discounted Cash Flow Model  | 8.73%                  |
| Risk Premium Model  | 10.54%                 |
| Capital Asset Pricing Model   | 12.46%                 |
| Cost of Equity Models Applied to Comparable Risk, Non-Price Regulated Companies | <u>12.12%</u>          |
| Indicated Range of Common Equity Cost Rates Before Adjustments                  | 9.85% - 10.96%         |
| Size Adjustment   | 0.20%                  |
| Credit Risk Adjustment  | <u>0.27%</u>           |
| Indicated Range of Common Equity Cost Rates after Adjustment                    | <u>10.32% - 11.43%</u> |
| Recommended Cost of Common Equity   | <u>10.35%</u>          |

The indicated range of common equity cost rates applicable to the Utility  
Proxy Group is between 9.85% and 10.96% before any Company-specific  
adjustments. The 9.85% low end of the range is calculated by taking the average  
model result (10.96%), and averaging that with the lowest model result (8.73%). The  
10.96% high end of the range is the average of all model results.

I then adjusted the indicated common equity cost rate upward by 0.20% and  
0.27% to reflect the Company's smaller relative size and riskier bond rating, as  
compared to the Utility Proxy Group. These adjustments resulted in a Company-

1 specific indicated range of common equity cost rates

2 Given the Utility Proxy Group and Company-specific ranges of common equity cost  
3 rates, my recommended ROE for SWEPCO is 10.35%.

4 Q. WHY DID YOU USE THE MIDPOINT BETWEEN YOUR AVERAGE MODEL  
5 RESULT AND YOUR LOWEST MODEL RESULT AS THE BOTTOM OF YOUR  
6 INDICATED REASONABLE RANGE BEFORE ADJUSTMENT?

7 A. As will be explained in detail below, the turmoil in markets attributable to the  
8 COVID-19 pandemic has increased risk for the entire economy generally, and  
9 utilities, specifically. Key takeaways include:

- 10 • The full impact and duration of the COVID-19 pandemic are  
11 unknown, and outcomes are highly uncertain;  
12
- 13 • This uncertainty increases volatility. Volatility increases the chances  
14 of investment losses. As a result, investors flee to bonds to limit their  
15 investment losses, which is known as “the flight to safety”. Increased  
16 levels of bond purchases increase their price, and drive down their  
17 yields, *i.e.*, interest rates. Because of this, the current low-interest rate  
18 environment is due to increased volatility in the market, and not a  
19 steady lowering of the cost of debt over time;  
20
- 21 • The same increased market volatility that caused investors’ “flight to  
22 safety” also created a situation where utilities are traded similar to the  
23 S&P 500. These correlated returns of utility stocks and market  
24 indices increase Beta coefficients (a measure of risk), and by  
25 extension, investor-required returns; and  
26
- 27 • Investor-influencing publications such as *Blue Chip Financial*  
28 *Forecasts* (“*Blue Chip*”), Standard & Poor’s (“S&P”), and Moody’s  
29 Investor Service (“Moody’s”) have recognized the risks of the  
30 COVID-19 pandemic, and have reflected them in their analyses.

1                   My recommendation to use the lower end of  
2           bottom of my Utility Proxy Group reasonable range is designed to be conservative  
3           given that volatility and uncertainty.

### III. CAPITAL MARKET COND

1 Q. PLEASE SUMMARIZE THE RECENT CAPITAL MARKET CONDITIONS.

2 A. The recent, dramatic shifts in the capital markets brought about by COVID-19 cannot  
3 be overstated. Central banks have implemented multiple policies to address the  
4 financial market instability. The Federal Reserve reduced the overnight lending rate  
5 to a target range of 0.00% to 0.25%, announced plans to increase holdings of  
6 Treasury securities and agency mortgage-backed securities by a total of \$700 billion,<sup>3</sup>  
7 established a facility to facilitate lending to small businesses via the Small Business  
8 Administration's Paycheck Protection Program ("PPP") by providing term financing  
9 backed by PPP loans,<sup>4</sup> and took additional actions to provide up to \$2.3 trillion in  
10 loans to support the economy.<sup>5</sup>

11 The U.S. Government also acted to attempt to address the unstable financial  
12 markets. The Coronavirus Aid, Relief, and Economic Security Act, provided \$2.4  
13 trillion in economic stimulus and the PPP and Health Care Enhancement Act  
14 provided an additional \$484 billion in emergency aid.<sup>6</sup>

15 Despite government and central bank actions, the 30-Year Treasury bond  
16 yield has remained highly volatile, as seen in its coefficient of variation<sup>7</sup> (see Chart 1,  
17 below).

---

3 Federal Reserve Press Release, March 15, 2020.

4 Federal Reserve Press Release, April 6, 2020.

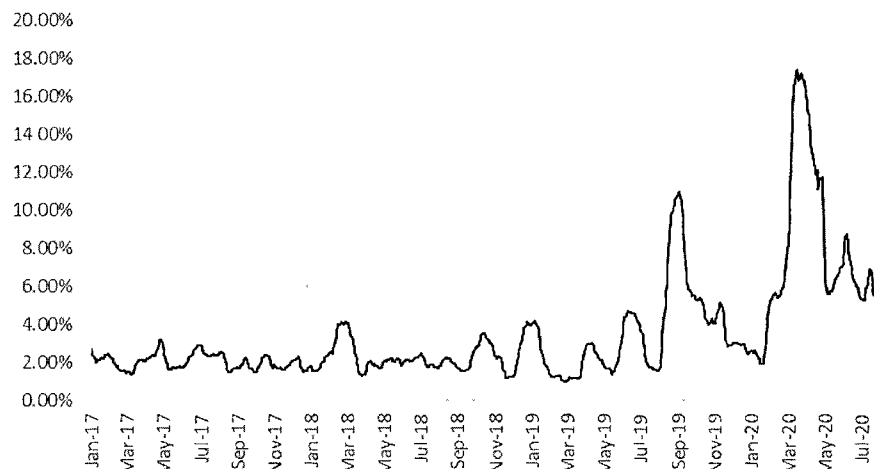
5 Federal Reserve Press Release, April 9, 2020.

6 S&P Global Market Intelligence, *Trump signs \$484B coronavirus relief package into law*, April 24, 2020.

7 The coefficient of variation is used by investors and economists to determine volatility.

DYLAN W. D'ASCENDIS  
DIRECT TESTIMONY

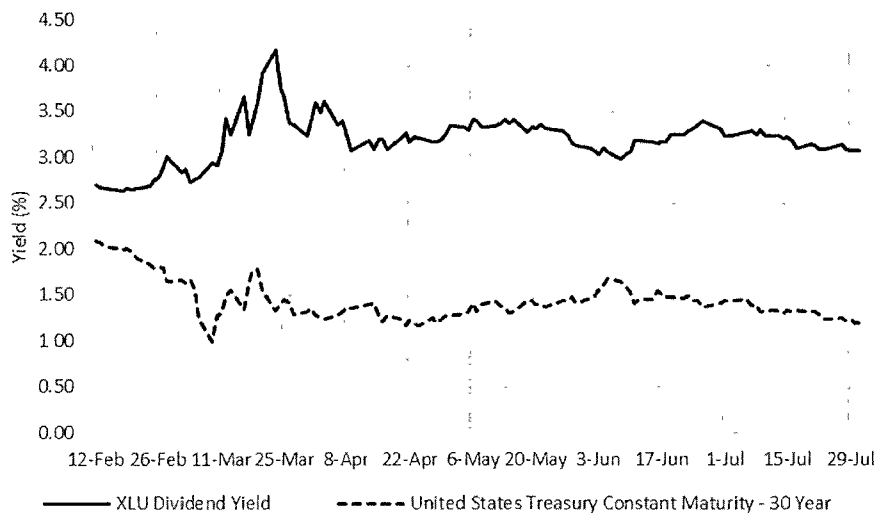
**Chart 1: Coefficient of Variation in 30-Ye**



Investor reactions to the market instability also are reflected in the “yield spread”, or the difference between dividend yields and long-term Government bond yields. As the 30-year Treasury yield fell, utility dividend yields increased, widening the yield spread (*see* Chart 2, below). That pattern, in which utility dividend yields move in the opposite direction of interest rates, reflects the disjointed capital market, and investors’ reactions to it. Under more “normal” conditions, dividend yields tend to be directionally related to Treasury yields, such that the yield spread remains relatively constant. But that relationship has a limit. Investors will not continuously bid up utility prices as interest rates fall; the widening yield spread demonstrates as much.

8 Source: Bloomberg Professional Service.

**Chart 2: Utility Dividend Yields vs. 30-Ye**

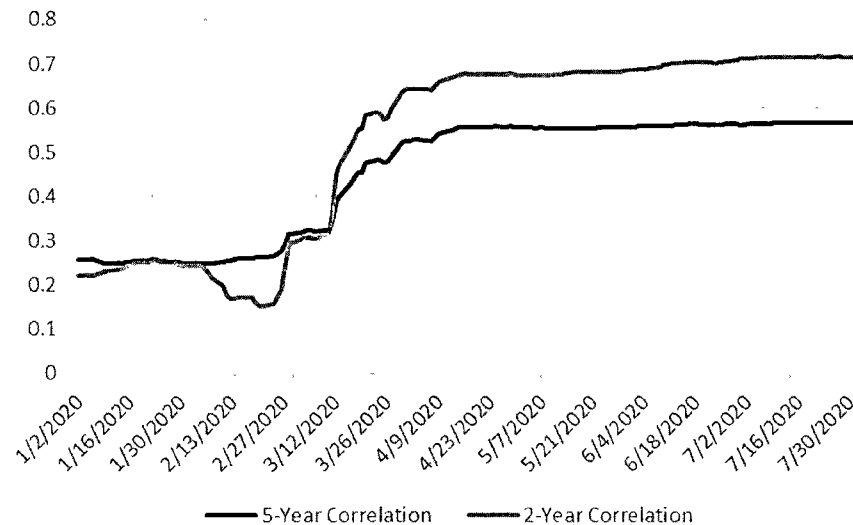


Additionally, I assessed the correlation of the changes in prices in the XLU<sup>10</sup> with the changes in prices of the S&P 500 to determine whether there was any relationship between the two during the current crisis. As shown in Chart 3 below, as the Coronavirus threat became apparent (*i.e.*, mid-February 2020), the correlation between the price changes of the XLU and the price changes of the S&P 500 increased from near 0.20 to near 0.70 (using a two-year correlation, consistent with Bloomberg Beta calculations) and from 0.25 to nearly 0.60 (using a five-year correlation, consistent with *Value Line Investment Survey's* (“*Value Line*”) Beta calculations).

9 Source: S&P Capital IQ.  
10 The Utilities Select Sector SPDR® Fund, which serves as a proxy for publicly traded electric utility stocks.



**Chart 3: Correlation Between Price Movement  
Since January 2020<sup>11</sup>**



This increase in correlation between price changes for the XLU and those for the S&P 500 is not surprising. As Morningstar recently explained, during volatile markets there often is little distinction in risk across assets or portfolios. That is, “correlations go to 1.”<sup>12</sup> When that happens, utility stocks lose their “defensive” quality.

Q. ARE YOU AWARE OF ANY INVESTOR-INFLUENCING PUBLICATIONS THAT INDICATED THE COST OF CAPITAL HAS INCREASED DURING THE RECENT MARKET DISLOCATION?

A. Yes. The April 10, 2020 edition of *Blue Chip Economic Indicators* (“BCEI”) described the pandemic’s effect on the general economy as follows:

<sup>11</sup> Source: S&P Capital IQ.  
<sup>12</sup> Morningstar, *Correlations Going to 1. Amid Market Collapse, US Stock Fund Factors Show Little Differentiation*, March 6, 2020.

1 This month's *Blue Chip Economic Indicators*

2 GDP in Q2 2020 is estimated to set a historical record – by far: a  
3 plunge of -24.5% SAAR [Seasonally Adjusted Annual Rate]. The  
4 previous record was -10.0% in Q1 1958; quarterly data began in Q1  
5 1947. In its February forecast, the panel had projected Q2 growth to  
6 be 1.9% SAAR and in March 1.0%.<sup>13</sup>

7 *BCEI* further explained that it expects the “easing of the current outbreak of  
8 the disease and accompanying social distancing practices will support a visible  
9 recovery in the second half of this year and on into 2021.” At the same time, *BCEI*  
10 cautioned that “the speed of the recovery would be nowhere near the magnitude of  
11 the drop,” and according to its consensus forecast, “real GDP would not recover to its  
12 previous peak until the fourth quarter of 2021.”<sup>14</sup>

13 It is within that broad context that S&P downgraded its outlook on the utility  
14 sector from “Stable” to “Negative”, explaining that it expects a 12.00% contraction in  
15 GDP during the second quarter of 2020, reducing commercial and industrial usage.<sup>15</sup>

16  
17 Although utilities have some discretion as to how they may reduce capital  
18 investments while maintaining safe and reliable service, in a prolonged recession they  
19 may consider reducing dividend payments. As S&P notes, “[t]here is precedent that  
20 during times of high financial stress, utilities have reduced their dividends and we  
21 would expect that the industry, if necessary, would use this lever, acting prudently to

---

13 *Blue Chip Economic Indicators*, April 10, 2020, at 1. [clarification added]

14 *Ibid.*

15 S&P Global Ratings, *COVID-19 The Outlook For North American Regulated Utilities Turns Negative*, April 2, 2020, at 1, 6-7.

1 preserve credit quality.”<sup>16</sup> It is through such “levers”

2 remain a high quality, investment grade industry.<sup>17</sup>

3 Moody’s similarly observed that “[i]n a prolonged economic downturn,  
4 boards of directors are likely to review dividend plans as an option to conserve  
5 cash.”<sup>18</sup> Moody’s expects companies with higher payout ratios as more likely to  
6 reduce dividends, and sees the potential for average dividend payout ratios to  
7 increase to about 80.00% from a median of 63.00% in 2019.<sup>19</sup> In Moody’s view, the  
8 ability to reduce dividends provides utilities “with a significant source of internal  
9 cash that could help them offset the impact of a potentially prolonged coronavirus-  
10 related economic downturn.”<sup>20</sup>

11 S&P and Moody’s both point to reducing the growth in dividends as a means  
12 of preserving credit quality in the event of a prolonged economic downturn. Doing  
13 so, however, comes at the expense of equity investors. The potential tension between  
14 maintaining credit quality and preserving dividends is another reason the Cost of  
15 Equity may increase.

16 In short, during a period of heightened and possibly prolonged market  
17 uncertainty, observable market information makes clear that utility investors now  
18 face greater risks and require higher returns.

---

16 *Ibid.*, at 9.

17 *Ibid.*

18 Moody’s Investors Service, *Dividends a major source of cash if coronavirus downturn is prolonged*,  
April 6, 2020, at 1.

19 *Ibid.*, at 2-3.

20 *Ibid.*, at 1.

## 2

4

19

## 20

22

174

1 total investment risk of the subject firm. Total invest  
2 the context of business and financial risk.

3 Business risk reflects the uncertainty associated with owning a company's  
4 common stock without the company's use of debt and/or preferred stock financing.  
5 One way of considering the distinction between business and financial risk is to view  
6 the former as the uncertainty of the expected earned return on common equity,  
7 assuming the firm is financed with no debt.

8 Examples of business risks generally faced by utilities include, but are not  
9 limited to, the regulatory environment, mandatory environmental compliance  
10 requirements, customer mix and concentration of customers, service territory  
11 economic growth, market demand, risks and uncertainties of supply, operations,  
12 capital intensity, size, the degree of operating leverage, emerging technologies  
13 including distributed energy resources, the vagaries of weather, and the like, all of  
14 which have a direct bearing on earnings. Although analysts, including rating  
15 agencies, may categorize business risks individually, as a practical matter, such risks  
16 are interrelated and not wholly distinct from one another. Therefore, it is difficult to  
17 specifically and numerically quantify the effect of any individual risk on investors'  
18 required return, *i.e.*, the cost of capital. For determining an appropriate return on  
19 common equity, the relevant issue is where investors see the subject company as  
20 falling within a spectrum of risk. To the extent investors view a company as being  
21 exposed to higher risk, the required return will increase, and vice versa.

1                   For regulated utilities, business risks are bot  
2                   nature. Whereas near-term business risks are reflected in year-to-year variability in  
3                   earnings and cash flow brought about by economic or regulatory factors, long-term  
4                   business risks reflect the prospect of an impaired ability of investors to obtain both a  
5                   fair rate of return on, and return of, their capital. Moreover, because utilities accept  
6                   the obligation to provide safe, adequate, and reliable service at all times (in exchange  
7                   for a reasonable opportunity to earn a fair return on their investment), they generally  
8                   do not have the option to delay, defer, or reject capital investments. Because those  
9                   investments are capital-intensive, utilities generally do not have the option to avoid  
10                  raising external funds during periods of capital market distress, if necessary.

11                  Because utilities invest in long-lived assets, long-term business risks are of  
12                  paramount concern to equity investors. That is, the risk of not recovering the return  
13                  on their investment extends far into the future. The timing and nature of events that  
14                  may lead to losses, however, also are uncertain and, consequently, those risks and  
15                  their implications for the required return on equity tend to be difficult to quantify.  
16                  Regulatory commissions (like investors who commit their capital) must review a  
17                  variety of quantitative and qualitative data and apply their reasoned judgment to  
18                  determine how long-term risks weigh in their assessment of the market-required  
19                  return on common equity.

20                  **B.       Financial Risk**

21       Q.       PLEASE DEFINE FINANCIAL RISK AND EXPLAIN WHY IT IS IMPORTANT  
22                  IN DETERMINING A FAIR RATE OF RETURN.

1     A.     Financial risk is the additional risk created by the intr  
2           stock into the capital structure. The higher the proportion of debt and preferred stock  
3           in the capital structure, the higher the financial risk to common equity owners (*i.e.*,  
4           failure to receive dividends due to default or other covenants). Therefore, consistent  
5           with the basic financial principle of risk and return, common equity investors require  
6           higher returns as compensation for bearing higher financial risk.

7     Q.     CAN BOND AND CREDIT RATINGS BE A PROXY FOR A FIRM'S  
8           COMBINED BUSINESS AND FINANCIAL RISKS TO EQUITY OWNERS (*I.E.*,  
9           INVESTMENT RISK)?

10    A.     Yes, similar bond ratings/issuer credit ratings reflect, and are representative of,  
11           similar combined business and financial risks (*i.e.*, total risk) faced by bond  
12           investors.<sup>21</sup> Although specific business or financial risks may differ between  
13           companies, the same bond/credit rating indicates that the combined risks are roughly  
14           similar from a debtholder perspective. The caveat is that these debtholder risk  
15           measures do not translate directly to risks for common equity.

16    Q.     DO RATING AGENCIES ACCOUNT FOR COMPANY SIZE IN THEIR BOND  
17           RATINGS?

---

21     Risk distinctions within S&P's bond rating categories are recognized by a plus or minus, e.g., within the A category, an S&P rating can be an A+, A, or A-. Similarly, risk distinction for Moody's ratings are distinguished by numerical rating gradations, e.g., within the A category, a Moody's rating can be A1, A2 and A3.

- 1     A.     No. Neither S&P nor Moody's have minimum comp  
2           given rating level. This means, all else equal, a relative size analysis must be  
3           conducted for equity investments in companies with similar bond ratings.



1                                    **V.    SWEPCO AND THE UTILITY PR**

2    Q.    ARE YOU FAMILIAR WITH SWEPCO'S OPERATIONS?

3    A.    Yes. SWEPCO provides electric services to approximately 540,000 retail customers  
4           in Texas, Louisiana, and Arkansas.<sup>22</sup> SWEPCO has long-term issuer ratings of Baa2  
5           from Moody's and A- from S&P. SWEPCO is not publicly-traded as it comprises an  
6           operating subsidiary of American Electric Power Company, Inc. ("AEP" or the  
7           "Parent"), which has electric distribution operations in 11 states<sup>23</sup> and serves  
8           approximately 4.4 million customers, and is publicly-traded under ticker symbol  
9           AEP.

10                            Page 1 of Schedule DWD-2 contains comparative capitalization and financial  
11           statistics for SWEPCO for the years 2015 to 2019.<sup>24</sup> During the five-year period  
12           ending 2019, the historically achieved average earnings rate on book common equity  
13           for SWEPCO averaged 7.06%. The average common equity ratio based on total  
14           permanent capital (excluding short-term debt) was 47.97%, and the average dividend  
15           payout ratio was 58.18%.

16                            Total debt to earnings before interest, taxes, depreciation, and amortization  
17           for the years 2015 to 2019 ranges between 3.92 and 5.09 times, with an average of

---

22        *See*, American Electric Power Company Inc., SEC Form 10-K at 3 (Dec. 31, 2019). The Company  
         also provides wholesale electric service to municipal and electric cooperative customers who serve  
         additional retail customers.

23        *See*, American Electric Power Company Inc., SEC Form 10-K at 1 (Dec. 31, 2019). In addition to  
         Texas, AEP also serves customers in Arkansas, Indiana, Kentucky, Louisiana, Michigan, Ohio,  
         Oklahoma, Tennessee, Virginia, and West Virginia.

24        Source: SWEPCO FERC Form 1.

1 4.76 times. Funds from operations to total debt range  
2 an average of 15.58%.

3 Q. PLEASE EXPLAIN HOW YOU CHOSE THE COMPANIES IN THE UTILITY  
4 PROXY GROUP.

5 A. The companies selected for the Utility Proxy Group met the following criteria:

- 6 (i) They were included in the Eastern, Central, or Western Electric Utility Group  
7 of *Value Line* (Standard Edition);  
8 (ii) They have 70% or greater of fiscal year 2019 total operating income derived  
9 from, and 70% or greater of fiscal year 2019 total assets attributable to,  
10 regulated electric operations;  
11 (iii) They are vertically integrated (*i.e.*, utilities that own and operate regulated  
12 generation, transmission, and distribution assets);  
13 (iv) At the time of preparation of this testimony, they had not publicly announced  
14 that they were involved in any major merger or acquisition activity (*i.e.*, one  
15 publicly-traded utility merging with or acquiring another) or any other major  
16 development;  
17 (v) They have not cut or omitted their common dividends during the five years  
18 ended 2019 or through the time of preparation of this testimony;  
19 (vi) They have *Value Line* and Bloomberg Professional Services (“Bloomberg”)  
20 adjusted Betas;  
21 (vii) They have positive *Value Line* five-year dividends per share (“DPS”) growth  
22 rate projections; and  
23 (viii) They have *Value Line*, Zacks, or Yahoo! Finance consensus five-year  
24 earnings per share (“EPS”) growth rate projections.

25 The following 14 companies met these criteria:

1

**Table 3: Utility Proxy Group C**

| Company Name                      | Ticker Symbol |
|-----------------------------------|---------------|
| ALLETE, Inc.                      | ALE           |
| Alliant Energy Corporation        | LNT           |
| Ameren Corporation                | AEE           |
| Duke Energy Corporation           | DUK           |
| Edison International              | EIX           |
| Entergy Corporation               | ETR           |
| IDACORP, Inc.                     | IDA           |
| NorthWestern Corporation          | NWE           |
| OGE Energy Corporation            | OGE           |
| Otter Tail Corporation            | OTTR          |
| Pinnacle West Capital Corporation | PNW           |
| PNM Resources, Inc.               | PNM           |
| Portland General Electric Co.     | POR           |
| Xcel Energy, Inc.                 | XEL           |

2 Q. PLEASE DESCRIBE SCHEDULE DWD-2, PAGE 2.

3 A. Page 2 of Schedule DWD-2 contains comparative capitalization and financial  
4 statistics for the Utility Proxy Group for the years 2015 to 2019.

5 During the five-year period ending 2019, the historically achieved average  
6 earnings rate on book common equity for the group averaged 8.60%, the average  
7 common equity ratio based on total permanent capital (excluding short-term debt)  
8 was 48.33%, and the average dividend payout ratio was 60.94%.

9 Total debt to earnings before interest, taxes, depreciation, and amortization  
10 for the years 2015 to 2019 ranges between 4.03 and 5.27 times, with an average of  
11 4.62 times. Funds from operations to total debt range from 15.07% to 23.09%, with  
12 an average of 19.47%.

1 **VI. CAPITAL STRUCTURE**

2 Q. WHAT IS SWEPCO'S REQUESTED CAPITAL STRUCTURE?

3 A. SWEPCO's requested capital structure consists of 50.63% long-term debt and  
4 49.37% common equity. SWEPCO's requested capital structure is its actual capital  
5 structure at March 31, 2020, as testified to by Company Witness Hawkins.

6 Q. DOES SWEPCO HAVE A SEPARATE CAPITAL STRUCTURE THAT IS  
7 RECOGNIZED BY INVESTORS?

8 A. Yes. SWEPCO is a separate corporate entity that has its own capital structure and  
9 issues its own debt. SWEPCO's actual capital structure is reflected in registrations of  
10 its debt with the Securities Exchange Commission.

11 Q. WHAT ARE THE TYPICAL SOURCES OF CAPITAL COMMONLY  
12 CONSIDERED IN ESTABLISHING A UTILITY'S CAPITAL STRUCTURE?

13 A. Common equity and long-term debt are commonly considered in establishing a  
14 utility's capital structure because they are the typical sources of capital financing a  
15 utility's rate base.

16 Q. PLEASE EXPLAIN.

17 A. Long-lived assets are typically financed with long-lived securities, so that the overall  
18 term structure of the utility's long-term liabilities (both debt and equity) closely  
19 match the life of the assets being financed. As stated by Brigham and Houston:

20 In practice, firms don't finance each specific asset with a type of  
21 capital that has a maturity equal to the asset's life. However,  
22 academic studies do show that most firms tend to finance short-term

1 assets from short-term sources and long-term  
2 sources.<sup>25</sup>

3 Whereas short-term debt has a maturity of one year or less, long-term debt  
4 may have maturities of 30 years or longer. Although there are practical financing  
5 constraints, such as the need to “stagger” long-term debt maturities, the general  
6 objective is to extend the average life of long-term debt. Still, long-term debt has a  
7 finite life, which is likely to be less than the life of the assets included in rate base.  
8 Common equity, on the other hand, is outstanding into perpetuity. Thus, common  
9 equity more accurately matches the life of the going concern of the utility, which is  
10 also assumed to operate in perpetuity. Consequently, it is both typical and important  
11 for utilities to have significant proportions of common equity in their capital  
12 structures.

13 Q. WHY IS IT IMPORTANT THAT THE COMPANY’S ACTUAL CAPITAL  
14 STRUCTURE, CONSISTING OF 50.63% LONG-TERM DEBT AND 49.37%  
15 COMMON EQUITY, BE AUTHORIZED IN THIS PROCEEDING?

16 A. In order to provide safe, reliable, and affordable service to its customers, SWEPCO  
17 must meet the needs and serve the interests of its various stakeholders, including  
18 customers, shareholders, and bondholders. The interests of these stakeholder groups  
19 are aligned with maintaining a healthy balance sheet, strong credit ratings, and a  
20 supportive regulatory environment, so that the Company has access to capital on  
21 reasonable terms in order to make necessary investments.

---

25 Eugene F. Brigham and Joel F. Houston, Fundamentals of Financial Management, Concise 4<sup>th</sup> Ed.,

1 Safe and reliable service cannot be maintained  
2 do not have the financial flexibility and strength to access competitive financing  
3 markets on reasonable terms. The authorization of a capital structure that understates  
4 the Company's actual common equity will weaken the financial condition of its  
5 operations and adversely impact the Company's ability to address expenses and  
6 investments, to the detriment of customers and shareholders. Safe and reliable  
7 service for customers cannot be sustained over the long term if the interests of  
8 shareholders and bondholders are minimized such that the public interest is not  
9 optimized.

10 Q. HOW DOES THE COMPANY'S ACTUAL COMMON EQUITY RATIO OF  
11 49.37% COMPARE WITH THE COMMON EQUITY RATIOS MAINTAINED BY  
12 THE UTILITY PROXY GROUP?

13 A. The Company's requested ratemaking common equity ratio of 49.37% for SWEPCO  
14 is reasonable and consistent with the range of common equity ratios maintained by  
15 the Utility Proxy Group. As shown on pages 3 and 4 of Schedule DWD-2, common  
16 equity ratios of the utilities range from 35.73% to 58.04% for fiscal year 2019.

17 I also considered *Value Line* projected capital structures for the utilities for  
18 2023-2025. As shown in Table 4 below, that analysis shows a range of projected  
19 common equity ratios between 37.50% and 59.00%.

---

Thomson South-Western, 2004, at 574.

**Table 4: *Value Line* Projected Equity Ratios of**

| <b>Company Name</b>               | <b>Common Equity Ratio</b> |
|-----------------------------------|----------------------------|
| ALLETE, Inc.                      | 59.00%                     |
| Alliant Energy Corporation        | 48.00%                     |
| Ameren Corporation                | 50.00%                     |
| Duke Energy Corporation           | 45.00%                     |
| Edison International              | 37.50%                     |
| Entergy Corporation               | 41.00%                     |
| IDACORP, Inc.                     | 53.50%                     |
| NorthWestern Corporation          | 50.00%                     |
| OGE Energy Corporation            | 51.50%                     |
| Otter Tail Corporation            | 53.00%                     |
| Pinnacle West Capital Corporation | 46.50%                     |
| PNM Resources, Inc.               | 49.00%                     |
| Portland General Electric Co.     | 47.50%                     |
| Xcel Energy, Inc.                 | 42.50%                     |

In addition to comparing the Company's actual common equity ratio with common equity ratios currently and expected to be maintained by the Utility Proxy Group, I also compared the Company's actual common equity ratio with the equity ratios maintained by the operating subsidiaries of the Utility Proxy Group companies. As shown on page 5 of Schedule DWD-2, common equity ratios of the operating utility subsidiaries of the Utility Proxy Group range from 45.23% to 65.22% for fiscal year 2019.

26 See, pages 2 through 17 of Schedule DWD-3.

- 1 Q. IS SWEPCO'S ACTUAL EQUITY RATIO OF 4  
2 RATEMAKING PURPOSES GIVEN THE RANGE OF THE UTILITY PROXY  
3 GROUP?  
4 A. Yes, it is. The Company's actual equity ratio of 49.37% is appropriate for  
5 ratemaking purposes in the current proceeding because it is within the range of the  
6 common equity ratios currently maintained and expected to be maintained, by the  
7 Utility Proxy Group and their operating subsidiaries.



**VII. COMMON EQUITY COST RATE**

**A. Discounted Cash Flow Model**

Q. WHAT IS THE THEORETICAL BASIS OF THE DCF MODEL?

A. The theory underlying the DCF model is that the present value of an expected future stream of net cash flows during the investment holding period can be determined by discounting those cash flows at the cost of capital, or the investors' capitalization rate. DCF theory indicates that an investor buys a stock for an expected total return rate, which is derived from the cash flows received from dividends and market price appreciation. Mathematically, the dividend yield on market price plus a growth rate equals the capitalization rate; *i.e.*, the total common equity return rate expected by investors.

Q. WHICH VERSION OF THE DCF MODEL DID YOU USE?

A. I used the single-stage constant growth DCF model in my analyses.

Q. PLEASE DESCRIBE THE DIVIDEND YIELD YOU USED IN APPLYING THE CONSTANT GROWTH DCF MODEL.

A. The unadjusted dividend yields are based on the proxy companies' dividends as of July 31, 2020, divided by the average closing market price for the 60 trading days ended July 31, 2020.<sup>27</sup>

Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO THE DIVIDEND YIELD.

---

<sup>27</sup> See, Column 1, page 1 of Schedule DWD-3.

1 A. Because dividends are paid periodically (*e.g.* quarterl  
2 (daily), an adjustment must be made to the dividend yield. This is often referred to as  
3 the discrete, or the Gordon Periodic, version of the DCF model.

4 DCF theory calls for using the full growth rate, or  $D_1$ , in calculating the  
5 model's dividend yield component. Since the companies in the Utility Proxy Group  
6 increase their quarterly dividends at various times during the year, a reasonable  
7 assumption is to reflect one-half the annual dividend growth rate in the dividend yield  
8 component, or  $D_{1/2}$ . Because the dividend should be representative of the next 12-  
9 month period, this adjustment is a conservative approach that does not overstate the  
10 dividend yield. Therefore, the actual average dividend yields in Column 1, page 1 of  
11 Schedule DWD-3 have been adjusted upward to reflect one-half the average  
12 projected growth rate shown in Column 6.

13 Q. PLEASE EXPLAIN THE BASIS FOR THE GROWTH RATES YOU APPLY TO  
14 THE UTILITY PROXY GROUP IN YOUR CONSTANT GROWTH DCF MODEL.

15 A. Investors with more limited resources than institutional investors are likely to rely on  
16 widely available financial information services, such as *Value Line*, Zacks, and  
17 Yahoo! Finance. Investors realize that analysts have significant insight into the  
18 dynamics of the industries and individual companies they analyze, as well as  
19 companies' abilities to effectively manage the effects of changing laws and  
20 regulations, and ever-changing economic and market conditions. For these reasons, I  
21 used analysts' five-year forecasts of EPS growth in my DCF analysis.

1 Over the long run, there can be no growth in  
2 Security analysts' earnings expectations have a more significant influence on market  
3 prices than dividend expectations. Thus, using projected earnings growth rates in a  
4 DCF analysis provides a better match between investors' market price appreciation  
5 expectations and the growth rate component of the DCF.

6 Q. PLEASE SUMMARIZE THE CONSTANT GROWTH DCF MODEL RESULTS.

7 A. As shown on page 1 of Schedule DWD-3, for the Utility Proxy Group, the mean  
8 result of applying the single-stage DCF model is 8.63%, the median result is 8.82%,  
9 and the average of the two is 8.73%. In arriving at a conclusion for the constant  
10 growth DCF-indicated common equity cost rate for the Utility Proxy Group, I relied  
11 on an average of the mean and the median results of the DCF.

12 **B. The Risk Premium Model**

13 Q. PLEASE DESCRIBE THE THEORETICAL BASIS OF THE RPM.

14 A. The RPM is based on the fundamental financial principle of risk and return; namely,  
15 that investors require greater returns for bearing greater risk. The RPM recognizes  
16 that common equity capital has greater investment risk than debt capital, as common  
17 equity shareholders are behind debt holders in any claim on a company's assets and  
18 earnings. As a result, investors require higher returns from common stocks than from  
19 bonds to compensate them for bearing the additional risk.

20 While it is possible to directly observe bond returns and yields, investors'  
21 required common equity returns cannot be directly determined or observed.  
22 According to RPM theory, one can estimate a common equity risk premium over

1 bonds (either historically or prospectively), and use th  
2 of common equity. The cost of common equity equals the expected cost rate for  
3 long-term debt capital, plus a risk premium over that cost rate, to compensate  
4 common shareholders for the added risk of being unsecured and last-in-line for any  
5 claim on the corporation's assets and earnings upon liquidation.

6 Q. PLEASE EXPLAIN HOW YOU DERIVED YOUR INDICATED COST OF  
7 COMMON EQUITY BASED ON THE RPM.

8 A. To derive my indicated cost of common equity under the RPM, I used two risk  
9 premium methods. The first method was the Predictive Risk Premium Model  
10 ("PRPM") and the second method was a risk premium model using a total market  
11 approach. The PRPM estimates the risk-return relationship directly, while the total  
12 market approach indirectly derives a risk premium by using known metrics as a proxy  
13 for risk.

14 Q. PLEASE EXPLAIN THE PRPM.

15 A. The PRPM, published in the *Journal of Regulatory Economics*,<sup>28</sup> was developed  
16 from the work of Robert F. Engle, who shared the Nobel Prize in Economics in 2003  
17 "for methods of analyzing economic time series with time-varying volatility" or  
18 ARCH.<sup>29</sup> Engle found that volatility changes over time and is related from one  
19 period to the next, especially in financial markets. Engle discovered that volatility of

---

28 Pauline M. Ahern, Frank J. Hanley and Richard A. Michelfelder, Ph.D. *A New Approach for Estimating the Equity Risk Premium for Public Utilities*, The Journal of Regulatory Economics (December 2011), 40:261-278.

29 Autoregressive conditional heteroscedasticity; *See also*, [www.nobelprize.org](http://www.nobelprize.org).

1 prices and returns clusters over time and is therefore  
2 used to predict future levels of risk and risk premiums.

3 The PRPM estimates the risk-return relationship directly, as the predicted  
4 equity risk premium is generated by predicting volatility or risk. The PRPM is not  
5 based on an estimate of investor behavior, but rather on an evaluation of the results of  
6 that behavior (*i.e.*, the variance of historical equity risk premiums).

7 The inputs to the model are the historical returns on the common shares of  
8 each Utility Proxy Group company minus the historical monthly yield on long-term  
9 U.S. Treasury securities through July 2020. Using a generalized form of ARCH,  
10 known as GARCH, I calculated each Utility Proxy Group company's projected equity  
11 risk premium using Eviews<sup>®</sup> statistical software. When the GARCH model is  
12 applied to the historical return data, it produces a predicted GARCH variance series<sup>30</sup>  
13 and a GARCH coefficient.<sup>31</sup> Multiplying the predicted monthly variance by the  
14 GARCH coefficient and then annualizing it<sup>32</sup> produces the predicted annual equity  
15 risk premium. I then added the forecasted 30-year U.S. Treasury bond yield of  
16 2.09%<sup>33</sup> to each company's PRPM-derived equity risk premium to arrive at an  
17 indicated cost of common equity. The 30-year U.S. Treasury bond yield is a  
18 consensus forecast derived from *Blue Chip*.<sup>34</sup> The mean PRPM indicated common  
19 equity cost rate for the Utility Proxy Group is 10.33%, the median is 10.21%, and the  
20 average of the two is 10.27%. Consistent with my reliance on the average of the

---

30 Illustrated on Columns 1 and 2, page 2 of Schedule DWD-4.

31 Illustrated on Column 4, page 2 of Schedule DWD-4.

32 Annualized Return = (1 + Monthly Return)<sup>12</sup> - 1

33 See, Column 6, page 2 of Schedule DWD-4.

1 median and mean results of the DCF models, I relied  
2 median results of the Utility Proxy Group PRPM to calculate a cost of common  
3 equity rate of 10.27%.

4 Q. PLEASE EXPLAIN THE TOTAL MARKET APPROACH RPM.

5 A. The total market approach RPM adds a prospective public utility bond yield to an  
6 average of: 1) an equity risk premium that is derived from a Beta-adjusted total  
7 market equity risk premium, 2) an equity risk premium based on the S&P Utilities  
8 Index, and 3) an equity risk premium based on authorized ROEs for electric utilities.

9 Q. PLEASE EXPLAIN THE BASIS OF THE EXPECTED BOND YIELD OF 3.78%  
10 APPLICABLE TO THE UTILITY PROXY GROUP.

11 A. The first step in the total market approach RPM analysis is to determine the expected  
12 bond yield. Because both ratemaking and the cost of capital, including the common  
13 equity cost rate, are prospective in nature, a prospective yield on similarly-rated long-  
14 term debt is essential. I relied on a consensus forecast of about 50 economists of the  
15 expected yield on Aaa-rated corporate bonds for the six calendar quarters ending with  
16 the fourth calendar quarter of 2021, and *Blue Chip's* long-term projections for 2022  
17 to 2026, and 2027 to 2031. As shown on line 1, page 3 of Schedule DWD-4, the  
18 average expected yield on Moody's Aaa-rated corporate bonds is 3.03%. In order to  
19 adjust the expected Aaa-rated corporate bond yield to an equivalent A2-rated public  
20 utility bond yield, I made an upward adjustment of 0.61%, which represents a recent

---

34 See, *Blue Chip Financial Forecasts*, June 1, 2020 at page 14 and July 31, 2020 at page 2.

spread between Aaa-rated corporate bonds and A2

Adding that recent 0.61% spread to the expected Aaa-rated corporate bond yield of 3.03% results in an expected A2-rated public utility bond yield of 3.64%. Since the Utility Proxy Group's average Moody's long-term issuer rating is A3, another adjustment to the expected A2-rated public utility bond is needed to reflect the difference in bond ratings. An upward adjustment of 0.14%, which represents one-third of a recent spread between A2-rated and Baa2-rated public utility bond yields, is necessary to make the A2 prospective bond yield applicable to an A3-rated public utility bond.<sup>36</sup> Adding the 0.14% to the 3.64% prospective A2-rated public utility bond yield results in a 3.78% expected bond yield applicable to the Utility Proxy Group.

**Table 5: Summary of the Calculation of the Utility Proxy Group Projected Bond Yield<sup>37</sup>**

|   |              |
|---|--------------|
| Prospective Yield on Moody's Aaa-Rated Corporate Bonds ( <i>Blue Chip</i> )                                     | 3.03%        |
| Adjustment to Reflect Yield Spread Between Moody's Aaa-Rated Corporate Bonds and Moody's A2-Rated Utility Bonds | 0.61%        |
| Adjustment to Reflect the Utility Proxy Group's Average Moody's Bond Rating of A3                               | <u>0.14%</u> |
| Prospective Bond Yield Applicable to the Utility Proxy Group  | <u>3.78%</u> |

Q. PLEASE EXPLAIN HOW THE BETA-DERIVED EQUITY RISK PREMIUM IS DETERMINED.

<sup>35</sup> As shown on line 2 and explained in note 2, page 3 of Schedule DWD-4.

<sup>36</sup> As shown on line 4 and explained in note 3, page 3 of Schedule DWD-4.

<sup>37</sup> As shown on page 3 of Schedule DWD-4.

1 A. The components of the Beta-derived risk premium mc  
2 equity risk premium over corporate bonds, and 2) the Beta coefficient. The  
3 derivation of the Beta-derived equity risk premium that I applied to the Utility Proxy  
4 Group is shown on lines 1 through 9, on page 8 of Schedule DWD-4. The total Beta-  
5 derived equity risk premium I applied is based on an average of three historical  
6 market data-based equity risk premiums, two *Value Line*-based equity risk premiums,  
7 and a Bloomberg-based equity risk premium. Each of these is described below.

8 Q. HOW DID YOU DERIVE A MARKET EQUITY RISK PREMIUM BASED ON  
9 LONG-TERM HISTORICAL DATA?

10 A. To derive an historical market equity risk premium, I used the most recent holding  
11 period returns for the large company common stocks from the Stocks, Bonds, Bills,  
12 and Inflation ("SBBI") Yearbook 2020 ("SBBI - 2020")<sup>38</sup> less the average historical  
13 yield on Moody's Aaa/Aa-rated corporate bonds for the period 1928 to 2019. Using  
14 holding period returns over a very long time is appropriate because it is consistent  
15 with the long-term investment horizon presumed by investing in a going concern, *i.e.*,  
16 a company expected to operate in perpetuity.

17 SBBI's long-term arithmetic mean monthly total return rate on large company  
18 common stocks was 11.83% and the long-term arithmetic mean monthly yield on  
19 Moody's Aaa/Aa-rated corporate bonds was 6.05%.<sup>39</sup> As shown on line 1, page 8 of  
20 Schedule DWD-4, subtracting the mean monthly bond yield from the total return on  
21 large company stocks results in a long-term historical equity risk premium of 5.78%.



1 I used the arithmetic mean monthly total return  
2 stocks and yields (income returns) for the Moody's Aaa/Aa corporate bonds, because  
3 they are appropriate for the purpose of estimating the cost of capital as noted in SBBI  
4 - 2020.<sup>40</sup> Using the arithmetic mean return rates and yields is appropriate because  
5 historical total returns and equity risk premiums provide insight into the variance and  
6 standard deviation of returns needed by investors in estimating future risk when  
7 making a current investment. If investors relied on the geometric mean of historical  
8 equity risk premiums, they would have no insight into the potential variance of future  
9 returns, because the geometric mean relates the change over many periods to a  
10 constant rate of change, thereby obviating the year-to-year fluctuations, or variance,  
11 which is critical to risk analysis.

12 Q. PLEASE EXPLAIN THE DERIVATION OF THE REGRESSION-BASED  
13 MARKET EQUITY RISK PREMIUM.

14 A. To derive the regression-based market equity risk premium of 9.34% shown on line  
15 2, page 8 of Schedule DWD-4, I used the same monthly annualized total returns on  
16 large company common stocks relative to the monthly annualized yields on Moody's  
17 Aaa/Aa-rated corporate bonds as mentioned above. I modeled the relationship  
18 between interest rates and the market equity risk premium using the observed  
19 monthly market equity risk premium as the dependent variable, and the monthly yield  
20 on Moody's Aaa/Aa-rated corporate bonds as the independent variable. I then used a

---

38 See, SBBI-2020 Appendix A Tables: Morningstar Stocks, Bonds, Bills, & Inflation 1926-2019.  
39 As explained in note 1, page 9 of Schedule DWD-4.  
40 See, SBBI - 2020, at page 10-22.

linear Ordinary Least Squares (“OLS”) regression, in,

premium is expressed as a function of the Moody’s Aaa/Aa-rated corporate bonds  
yield:

$$RP = \alpha + \beta (R_{Aaa/Aa})$$

Q. PLEASE EXPLAIN THE DERIVATION OF THE PRPM EQUITY RISK  
PREMIUM.

A. I used the same PRPM approach described above to the PRPM equity risk premium.  
The inputs to the model are the historical monthly returns on large company common  
stocks minus the monthly yields on Moody’s Aaa/Aa-rated corporate bonds during  
the period from January 1928 through July 2020.<sup>41</sup> Using the previously discussed  
generalized form of ARCH, known as GARCH, the projected equity risk premium is  
determined using Eviews<sup>®</sup> statistical software. The resulting PRPM predicted a  
market equity risk premium of 9.55%.<sup>42</sup>

Q. PLEASE EXPLAIN THE DERIVATION OF A PROJECTED EQUITY RISK  
PREMIUM BASED ON VALUE LINE DATA FOR YOUR RPM ANALYSIS.

A. As noted above, because both ratemaking and the cost of capital are prospective, a  
prospective market equity risk premium is needed. The derivation of the forecasted  
or prospective market equity risk premium can be found in note 4, page 8 of Schedule  
DWD-4. Consistent with my calculation of the dividend yield component in my DCF

---

<sup>41</sup> Data from January 1926 to December 2019 is from SBBI - 2020. Data from January 2020 to July 2020 is from Bloomberg.

1 analysis, this prospective market equity risk premium  
2 the three- to five-year median market price appreciation potential by *Value Line* for  
3 the 13 weeks ended July 31, 2020, plus an average of the median estimated dividend  
4 yield for the common stocks of the 1,700 firms covered in *Value Line* (Standard  
5 Edition).<sup>43</sup>

6 The average median expected price appreciation is 69%, which translates to a  
7 14.02% annual appreciation, and when added to the average of *Value Line*'s median  
8 expected dividend yields of 2.51%, equates to a forecasted annual total return rate on  
9 the market of 16.53%. The forecasted Moody's Aaa-rated corporate bond yield of  
10 3.03% is deducted from the total market return of 16.53%, resulting in an equity risk  
11 premium of 13.50%, as shown on line 4, page 8 of Schedule DWD-4.

12 Q. PLEASE EXPLAIN THE DERIVATION OF AN EQUITY RISK PREMIUM  
13 BASED ON THE S&P 500 COMPANIES.

14 A. Using data from *Value Line*, I calculated an expected total return on the S&P 500  
15 companies using expected dividend yields and long-term growth estimates as a proxy  
16 for capital appreciation. The expected total return for the S&P 500 is 13.66%.  
17 Subtracting the prospective yield on Moody's Aaa-rated corporate bonds of 3.03%  
18 results in a 10.63% projected equity risk premium.

19 Q. PLEASE EXPLAIN THE DERIVATION OF AN EQUITY RISK PREMIUM  
20 BASED ON BLOOMBERG DATA.

---

42 Shown on line 3, page 8 of Schedule DWD-4.

43 As explained in detail in note 1, page 2 of Schedule DWD-4.

1 A. Using data from Bloomberg, I calculated an expected  
2 using expected dividend yields and long-term growth estimates as a proxy for capital  
3 appreciation, identical to the method described above. The expected total return for  
4 the S&P 500 is 13.75%. Subtracting the prospective yield on Moody's Aaa-rated  
5 corporate bonds of 3.03% results in a 10.72% projected equity risk premium.

6 Q. WHAT IS YOUR CONCLUSION OF A BETA-DERIVED EQUITY RISK  
7 PREMIUM FOR USE IN YOUR RPM ANALYSIS?

8 A. I gave equal weight to all six equity risk premiums based on each source – historical,  
9 *Value Line*, and Bloomberg – in arriving at a 9.92% equity risk premium.

10 **Table 6: Summary of the Calculation of the Equity Risk Premium using**  
11 **Total**

|   |               |
|---|---------------|
| Historical Spread Between Total Returns of Large Stocks and Aaa and Aa-Rated Corporate Bond Yields (1928 – 2019)  | 5.78%         |
| Regression Analysis on Historical Data  | 9.34%         |
| PRPM Analysis on Historical Data  | 9.55%         |
| Prospective Equity Risk Premium using Total Market Returns from <i>Value Line</i> Summary & Index less Projected Aaa Corporate Bond Yields  | 13.50%        |
| Prospective Equity Risk Premium using Measures of Capital Appreciation and Income Returns from <i>Value Line</i> for the S&P 500 less Projected Aaa Corporate Bond Yields               | 10.63%        |
| Prospective Equity Risk Premium using Measures of Capital Appreciation and Income Returns from Bloomberg Professional Services for the S&P 500 less Projected Aaa Corporate Bond Yields | <u>10.72%</u> |
| <b>Average</b>  | <u>9.92%</u>  |

12 **Market Returns<sup>44</sup>**  
13

44 As shown on page 8 of Schedule DWD-4.